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China

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GENERAL

Origins of MFN Disturbance Discussed

91P30165 Hong Kong CHING PAO [THE MIRROR]
in Chinese No 167, 10 Jun 91 pp 76-77

[Article by Shangguan Wentian (0006 1351 2429 11310):
"Whence the Sino-U.S. MFN Disturbance?"]

[Text] The most basic condition for the United States extending Most-Favored-Nation [MFN] status to China is that China permit its nationals free entry and exit from its territory. Yet it can be said that the current condition in which Chinese freely leave the country has never before occurred since the founding of the nation by the Chinese Communist Party. Ordinary people, provided they can acquire a foreign visa, are usually allowed through. Thus the issue of Chinese entering and exiting their country does not violate the United States' fundamental policy on extending MFN status to China.

Sino-U.S. relations, like the changing weather, often meet with unexpected squalls. Sometimes they simply lose their regular patterns: they are unpredictable. In the recent past, because of the MFN issue, Sino-U.S. relations have faced continuous storms. However, there is light at the end of the tunnel.

Elaborating on the MFN Issue

The issue of the United States extending MFN treatment to China can be viewed as complex or simple. If considered as it stands, and dealt with purely from the fundamental principle of the United States' conferral of MFN treatment on China, then it is as it has been over the past 10 years: a comparatively simple issue, with no need to deliberately complicate matters, producing this great a battle. However, if it is considered along with other factors, such as internal U.S. partisan and political factors, then the matter can become very complex, to the point that not only do the United States and China quarrel over MFN status, but also that relations between the two countries are damaged. Of course, this harms both the United States and China, and at the same time causes trouble to innocent people.

10 Years Without MFN Troubles

As people know, according to the communique on establishing diplomatic relations between China and the United States issued 10 years ago, after the establishment of relations between China and the United States in 1979, starting in 1980 the two sides extended MFN trade status to each other. Because China has long implemented closed-door and isolationist policies, it goes without saying that its economy has lagged behind, and it can be inferred that the United States' conferral of MFN treatment on China has had an enormous influence on China's economic development. On the other hand, the United States is the world's number one economic power, with trading partners all over the world. China's conferral of MFN treatment on the

United States, while important, cannot be compared in terms of importance to the United States extending MFN status to China. As a result, people normally pay attention to the issue of the United States extending MFN status to China, but not the other way around. Looking back over the time since 1980 when the United States gave China MFN status, there has been continuous mutual harmony and renewal. Even if there has been some friction in this period, there has never been a major MFN disturbance.

However, after the disturbance in Beijing on 4 June 1989, matters changed. Last year, considerably loud voices in the U.S. Congress demanded that the U.S. government revoke China's MFN status, and continued for a significant period. Finally, because President Bush employed every possible persuasion, in the end, amid cries of alarm but no real danger, MFN was extended to China. However, because of all this, the biggest hint of Congressional demands to revoke MFN this year was hidden.

In China, Matters This Year Have Improved Over Last Year

To be fair, because of the disturbance in Beijing on 4 June 1989, it is not illogical that the United States has brought up the revocation of China's MFN status or brought up stringent demands, such as requiring China to pay attention to human rights, to give Chinese citizens greater freedom to enter and exit China, and so forth. But the most elementary condition of the United States' conferral of MFN status on China is that China allow its people to freely enter and exit its territory. The question now is to compare matters in China this year with those last year, and determine whether they have improved or worsened. Human rights, free entry and exit, freedom of speech, and so forth: have they improved somewhat, or have they gotten worse? If one views this issue impartially and takes matters as they are, then one should be able to agree: matters in China this year have progressed from where they were last year. Internal politics and foreign relations are essentially this way: First, regarding foreign relations, Western nations almost without exception have of their own accord removed economic sanctions against China. Furthermore, they have progressively restored high-level contacts. These Western nations include the United States.

At the same time, it seems China has not continued making mass arrests; moreover, members of the people's movement arrested the year before last have either been successively set free, or sentenced more lightly than people would normally expect. A very important point is that for ordinary people, including intellectuals, speech and life are comparatively free. On the street, in the market and public places, and in restaurants, people talk at length about sensitive political issues, apparently without great misgivings. Some even go so far as to criticize certain officials by name. Even more important, Chinese people's freedom to leave China can be described as never seen before the Chinese Communist

Party founded the nation. According to reports, in departments of certain famous universities in Shanghai almost all of the young teachers of certain specialties have studied abroad as publicly sponsored or private students; older teachers' applications to leave the country are likewise ratified. As for ordinary people, as long as they can acquire a foreign visa, they usually can get through. It is reported that the current problem is that there is freedom to leave the country only when a foreign entry visa is obtained. This shows that the situation of people entering and leaving China today indeed does not violate the United States' fundamental policy on extending MFN status to China.

The United States' Internal Political and Economic Needs

Since this is the case, the United States' renewal of China's MFN status this year should follow as a matter of course, and at a minimum should go more smoothly than last year. However, matters are just the opposite. This year, demands in the United States for the revocation of China's MFN status are louder than ever. Why should this sort of illogical event arise?

This is just an aspect of internal U.S. complications. First, clearly one of the economic reasons is that U.S. trade protectionism is seizing a chance to cause trouble. Last year the United States had a \$110 billion trade deficit, but was not disturbed, blaming the "37 nations" which deliberately restrict imports of U.S. products: China is included among the leaders of this group. The discussion of China's MFN status is thus a great opportunity for some U.S. economists. They express increased resolve, and bring pressure to bear on the U.S. government, demanding that it increase pressure on China. This is understood. Is not China's dispatch of a large-scale purchasing group to the United States to fight the fire a vivid illustration?

Second, in partisan political wrangling, the Democrats seek to profit from this issue. In 1992 there will be a U.S. presidential election. In light of the current situation, the Democratic Party has no fundamental way to topple Bush in next year's election. Just preventing Bush from staying in office another term would in itself be an extraordinary victory, and attacking Bush's China policy

is a step in this effort. This is clearly understood. Indeed, Bush will not have an easy time with this. Because of this, Bush met with the Dalai Lama, and spoke of possibly attaching conditions to China's MFN renewal. In short, Bush must again put out some effort on account of this.

In view of the fact that the U.S. current "strategic objectives" with regard to China still have not disappeared, and are expected to be able to achieve final success, it appears that President Bush will decide to renew MFN like last year. Can the two houses of Congress overturn Bush's decision with a two-thirds vote before 3 September? It seems they will not.

U.S. Criticisms Lack Evidence

In reality, some arguments raised by U.S. congressmen are not sufficient; some fundamentally have no precise evidence, and are almost forced on people. How can this be taken as a foundation for settling an issue? For example, regarding the issues of China selling weapons to Iraq and creating an atomic bomb for Algeria, arguments involving nuclear proliferation, China's President Yang Shangkun clearly pointed out during an interview with U.S. NEWS AND WORLD REPORT that the reactor which China built for Algeria cannot be used to make an atomic bomb. In addition, China's agreement with Algeria already states that this reactor cannot be used to make weapons. Yang Shangkun indicated that China has never supported the spread of nuclear weapons.

Some analysts pertinently point out that since the United States raises complaints with China, it should responsibly produce the evidence. They cannot demand that China prove that these matters do not exist. Among these there are perhaps a few issues that require joint discussion, such as China's position that the reactor that it built for Algeria cannot be used to make an atomic bomb. If the U.S. side has objections to this, they must prove from a technological standpoint how it could be used to develop nuclear weapons, and at the same time show evidence that Algeria intends to develop a nuclear weapon. If each of the real issues mentioned above can be rapidly clarified, then the misunderstandings of congressmen and the people can be eliminated, and attitudes can be changed.

Qiao Shi Supports Zhu Rongji, Jiang Zemin

91CM0416A Hong Kong CHAO LIU (TIDE)
in Chinese No 30, 15 Apr 91 pp 38-39

[Article by Ch'en Sui (6929 4482): "Qiao and the Carpenter Assist Zhu and Jiang in the War Between the Shanghai Faction and the Beijing Faction"]

[Text] Qiao Shi and the Carpenter Li Ruihuan Support the Shanghai Faction

The war between the Shanghai faction and the Beijing faction is a dispute over the theory and the policy for intensification of reform between the economic reform faction and the rigid faction. Because Deng Xiaoping, Li Xiannian, and Yang Shangkun have expressed their support for Shanghai's assuming a foreign debt to develop Pudong, the Shanghai faction's bombardment of "ideological rigidity" is rather fierce.

In this theoretical battle, General Secretary Jiang Zemin is the behind the scenes head of the Shanghai faction and Zhu Rongji is the daring general of the assault. In the six member Political Bureau Standing Committee of the CPC Central Committee which includes Jiang Zemin, "Qiao Mu" (0829 2606) supports the Shanghai faction. This office's "Qiao Mu" definitely is not the "ideological czar," Hu Qiaomu, but is Qiao Shi and the carpenter, Li Ruihuan. High-level intellectuals on the mainland, when they speak privately about government affairs and bring up Li Ruihuan, the "new man" in charge of "ideology," usually prefer not to call him by name. They call him the carpenter to express their sincere appreciation for the "solid working spirit" of the carpenter. (Li was a carpenter who was promoted 10,000 li, onto the political scene.) His image in the economic reform faction is rather clear, but for the time being it is not being revealed in that office.

Qiao Shi Supported the Hu Zhao Reformers, But Was Rather Self-Restrained

With regard to Qiao Shi, outsider "hearsay" and commentary diverge from the facts. Because he is in charge of the Chinese Communist political legal system, a great many people call him a conservative. Actually, he is different from the rigid Li Peng and Yao Yilin faction. He was promoted by Hu Yaobang and was a high-ranking economic reform faction cadre trusted by Zhao Ziyang. It is just that he was more self-restrained than Hu Qili, Rui Xingwen, and Yan Mingfu.

When Hu Yaobang was general secretary, the core group were cadres from the Communist Youth League and the CPC's International Liaison Department. When Hu was at the height of his power, Qiao Shi, along with Hu Qili, Wang Zhaoguo, and Hao Jianxiu, controlled the Secretariat. They were "four big warrior attendants" in Hu's Communist Youth League. Qiao Shi had a slight exposure to the Communist Youth League and was deeply immersed in the CPC's International Liaison Department. In addition to him, Wu Xueqian, Qian Liren, Zhu

Liang, and Li Shuzheng all had records of service with both the Communist Youth League and the CPC's International Liaison Department, and all were high ranking cadres promoted by Hu.

When the 1989 student movement occurred, of the four members of the Secretariat, Hu Qili, Rui Xingwen, and Yan Mingfu all "took clear stands" in support of Zhao Ziyang's strategy of reconciliation through dialogue. Because Qiao Shi was in charge of the political and legal system, he was not very involved in resolving the student movement and propaganda and united front work. However, when he took part in Zhao's visit to the fasting students, he appealed to the students to give the leaders time to resolve the issue. His intention was to persuade them to give Deng Xiaoping some maneuvering room and not to crowd him too tightly. He demonstrated support for Zhao's concept of peacefully settling the student movement through dialogue.

At the "briefing" at Deng Xiaoping's house in mid-May, five Political Bureau Standing Committee members took a stand on implementing martial law. Li Peng and Yao Yilin advocated martial law and transferring troops into the city. Zhao Ziyang was opposed, Hu Qili "abstained, with personal reservations," and Qiao Shi said that he "abstained and would comply with the organizational decision." The so-called organizational decision was really the final verdict of "patriarch" Deng Xiaoping. The reason Qiao Shi abstained was that he did not believe in martial law or in bringing troops into the city. The reason he declared his compliance with the organization was that deep down he knew that there was no way to go against the "patriarchal will." (If the reader is interested in the positions taken, he can consult Ch'en I-ts'u [7115 0001 6171], *China: 10 Years of Reform and the 1989 Student Movement*, p 161.)

When Li Peng brings up the matter of martial law, he says that Zhao Ziyang had only one vote. It appears that he was the majority party. Actually the stand of the Political Bureau Standing Committee was three to two. Only two votes officially favored martial law. But because the real deciding power was in the hands of Deng Xiaoping, the troops were dispatched and force was used.

Overview of CPC Political Bureau Standing Committee Member Qiao Shi

Category	Summary
Birthplace	1924, Dinghai, Zhejiang; original name, Jiang Zhizong [1592 1807 1749]
Education	Shanghai East China Combined University
CPC membership	joined in 1940 (at age 16), in Shanghai
Date	Experience

Overview of CPC Political Bureau Standing Committee Member Qiao Shi (Continued)

Category	Summary
1949	underground party branch secretary, Shanghai Nantong Middle School, Guanghua University Attached Middle School, party committee secretary, Shanghai Middle School District; general party branch secretary, Tongji University; general liaison, CPC Student Committee, Shanghai Underground Party stationmaster; deputy secretary, CPC Shanghai New Committee District
1949-1976	secretary, Hangzhou Municipal Committee Youth Committee; assistant department head, United Front Department's East China Office Youth Committee; department head, Anshan Iron and Steel Company's Capital Construction Department; president, Jiuquan Iron and Steel Company's Design Institute; party secretary, Shaanxi Engineering Management Office; researcher, section chief, bureau chief, CPC Central Committee's International Liaison Department
1977-1991	deputy department head, department head, CPC Central Committee's International Liaison Department; alternate member, CPC Central Committee Secretariat; director, Central Committee General Office; head, Central Committee Organizational Department; member, Central Committee Political Bureau; secretary, Central Commission of Political Science and Law; member, Central Committee Secretariat; vice premier, State Council; member, Political Bureau Standing Committee and Secretariat; secretary, Central Commission for Discipline Inspection
Family and Relatives	Wife Wang Yuwen (3040 6735 2429) is Chen Bule's (7115 1380 7191) niece; Chen was Chiang Kai-shek's deputy aide-de-camp. His father-in-law, Wang Zuowang (3040 4371 2598), was Chen Bule's confidential secretary. His son is presently studying in England; his daughter-in-law is employed in the British Broadcasting Company's Chinese Department. His daughter is studying in the United States.

Source: compiled by CHAO LIU's Materials Office, 4 April 1991

Advocating the Productive-Forces Theory in Chorus With Jiang Zemin On many different occasions Qiao Shi has expressed his support for Pudong's development and the Shanghai faction's advocacy of developing productive forces. On 2 April, he used his position as head of the CPC Party School to deliver a speech at the party school and bring up the criterion of productive forces again. He said, "The development of productive forces is seen as the fundamental deciding factor in social progress... Vigorously developing productive forces is the basic duty of socialism." He appealed to cadres "to develop society's productive forces with single-hearted devotion." On 30 March, Qiao Shi used his position as a Shanghai municipal "people's deputy" to speak to a meeting of the Shanghai group at the annual session of the National People's Congress. He commended Shanghai's rather great accomplishments in recent years, and expressed the hope that Shanghai would develop a little faster and better. He believes that reform must be intensified for the economy to "be pushed forward."

In recent months, Qiao Shi and Jiang Zemin's "harmony" in giving Zhu Rongji a hand has been extremely evident.

The New Four-to-Two Structure of the Political Bureau Standing Committee

Jiang Zemin, Qiao Shi, and Li Ruihuan form a "power block" in the current six-person Political Bureau Standing Committee.

Song Ping, who in the division of Standing Committee responsibilities is in charge of organization and rural economy, has indicated time and again in recent months that he wants the effective rural contract system policy to be stabilized. He is inclined towards Jiang Zemin's side. Only Li Peng and the elderly, sickly Yao Yilin are still in the rigid faction. (Their main supporters are those such as Peng Zhen and Wang Zhen.) Generally speaking, the policy and conceptual structure of the Political Bureau Standing Committee pits four against two.

In the Political Bureau, Wan Li, Wu Xueqian, Tian Jiyun, and Yang Rudai were formerly strong supporters of Hu Yaobang and Zhao Ziyang. Wan Li chairs the National People's Congress Standing Committee. Because of his history and his reform background, he has an in with Deng Xiaoping. Wu and Tian were two of the three former vice premiers who had real authority. Yang is the "number one man" in Sichuan Province, which has a population in excess of 100 million. Like Tian, he was promoted single-handedly by Zhao. After 4 June, he still allowed the Sichuan Academy of Social Sciences to sing a contrary tune to Li Peng with regard to economic reform theory.

With this type of power structure, all that would be necessary is for Deng Xiaoping to decide to intensify economic reform and slightly weaken "anti-liberalism," and it would not be difficult for the Political Bureau to go from a gradual change to a rather great change. There would be no telling what the new wave of economic reform might gradually produce.

Editor's Note: For Qiao Shi's experience, please refer to "Qiao Shi: New Member of the CPC Political Bureau's Standing Committee," in issue number nine of this publication.

New State Council Information Office Viewed

HK1006130991 Hong Kong TZU CHING in Chinese No 9, 5 Jun 91 pp 12-13

[Special interview by An Chih (1344 0037): "Visit to Recently Established State Council Information Office"]

[Text] One day in late May, this reporter drove to the Asian Games Village, located in the northwestern corner of Beijing City proper, an area with a forest of high buildings. In a residential district in the Anyuanbei neighborhood opposite the Olympic Center in Dongmen Road, there is an ordinary six-story building. This is the

location of the recently established State Council Information Office. In a plainly decorated office, this reporter interviewed Zhu Muzhi, who had just been appointed head of the Information Office, and two deputy heads Zeng Jianhui [2582 1696 1798] and Zhou Jue [0719 6030].

Being a veteran in Chinese press and cultural circles, Zhu Muzhi, presently head of the External Propaganda Group of the CPC Central Committee, enjoys a good reputation both at home and abroad. He has been deputy president and president of the XINHUA headquarters for a long period of time; after the downfall of the gang of four, he took up posts as executive deputy head of the CPC Propaganda Department and the state's cultural minister. As president of the Association for Cultural Exchanges With Foreign Countries, Zhu Muzhi has always dedicated himself to stepping up cultural exchanges with foreign countries. During his 40-year career with XINHUA, Zeng Jianhui, one of Zhu's assistant and deputy head of the CPC Propaganda Department since 1988, has long been engaged in press work, mainly in external press. Zeng took up the post of XINHUA vice president in 1982 and was relieved of his office last March. Zhou Jue, Zhu Muzhi's other assistant, is a man with rich diplomatic experience. He started work with the Ministry of Foreign Affairs in 1954; assumed office of Chinese ambassador to Turkey in 1984; took the post of assistant to the foreign minister after completing his tenure in Turkey and returning to China; assumed office as Chinese ambassador to France in 1986; and returned to China last year. Both Zeng Jianhui and Zhou Jue are currently deputy heads of the CPC Central Committee External Propaganda Group.

Zhu Muzhi is gentle with people and has an elderly and scholarly manner. He is very energetic and talks cheerfully and humorously. No sooner had we all taken our seats than he said jokingly: Today we are very happy to receive our first guest, especially the first reporter from Hong Kong—a reporter from TZU CHING magazine—on the opening day of the information office. This is a very good beginning.

Before long, our talk came round to the subject. Without beating about the bush, this reporter raised the following questions: What is the purpose of the State Council in setting up an information office? What are the functions and tasks of the Information Office? And what are your comments on the assertion by some Hong Kong people that this organ has been established to improve China's image in the international community. Zhu Muzhi said: The establishment of the information office conforms to the needs of China's opening up. Reform and opening up is China's long-term national policy. It is emphasized in the 10-Year Program and the Eighth Five-Year Plan for National Economic and Social Development, which were adopted at the Fourth Session of the Seventh National Congress, that continued efforts should be taken to step up reform and opening up, to attain the second strategic goal of redoubling the 1980 GNP by the

end of this century; and to bring about a fairly comfortable living standards for the people of the whole country, who now have enough food and clothing. China's building of socialist civilization has entered an extremely important development phase. In order to further opening up, it is necessary to enable the world and China to obtain a better mutual understanding of each other. This is a fairly great system project, which needs an institution to make overall arrangements. In view of this, the party Central Committee and the State Council decided to set up an information office to take charge of this field. This office is a comprehensive working body whose main responsibility is to organize, promote, and coordinate between relevant departments under the central authorities and local governments in their efforts to brief foreign countries on things in China, to enhance various countries' understanding of China; step up exchanges and cooperation between China and various countries in economic, scientific and technological, and cultural fields; and strive to create a sound international environment favorable to China's reform and opening up, as well as to its building of socialist civilization. As regards China's international image, this is an objective reality. It is true that some people in foreign countries do have various misunderstandings of China, which may be caused by their failure to acquaint themselves with the realities of China; by their temporary prejudice against China, or by distorted propaganda and even rumors spread by a handful of ill-intentioned people. Our strengthened efforts to brief foreign countries on things in China only aims at showing China's true face to the people of the whole world and at enhancing mutual understanding between China and the world.

As regards the argument held by some Hong Kong people that since the party is always in charge of China's propaganda work, the establishment of the information office means weakening the party's leadership in this field, this reporter asked the office to comment on this and also to explain what kind of relationship exists between the CPC Central Committee's External Propaganda Group and the State Council Information Office. Zhu Muzhi said: All of our work, including that of governmental departments, is carried out in accordance with the line, principles, and policies formulated by the party Central Committee, with Comrade Jiang Zemin as the core. In setting up the information office, the State Council exactly aims at impelling various government departments to better implement the party's principles on external propaganda work and further strengthen the work in this field. Being a subordinate working body to the CPC Central Committee, the External Propaganda Group is responsible for the formulation of principles and policies on external propaganda work and has no governmental functions. However, the State Council Information Office is a government working body which possesses government administrative power. It can make overall planning for and coordinate between various relevant governmental departments, to enable them to devote greater efforts to briefing foreign countries on things in China in light of their specific work. At the

present stage, in order to make our work easier, the major responsible posts in these two organs are held by the same people.

When talking about the relationship with the information office and relevant government departments, Zhou Jue said: The information office is a comprehensive working body under the State Council, responsible for strengthening the work of showing China to foreign countries. It will not hold news briefings or carry out external cultural exchanges for other governmental departments, such as the Ministries of Foreign Affairs, Culture, and Radio, Cinema, and Television, and the press and publication department, nor will it take the place of the government spokesman. Complaints and requirements put forward by reporters from Hong Kong, Macao, and foreign countries will be dealt with through original channels. Undoubtedly, these reporters can also reach the information office, which will do everything it can to make things easy for them.

Asked whether or not the establishment of the information office means strengthening control over foreign reporters, Zeng Jianhui said that it can be seen from its tasks that the information office only strives to make things more convenient for foreign reporters stationed in China, as well as for reporters from Hong Kong, Macao, and Taiwan, in carrying out normal news coverage. In addition, the office will do all it can to enable foreign reporters to obtain firsthand reliable information, which will help foreign countries obtain a better understanding of things in China. To this end, we will discuss with various relevant government departments, ways to improve the procedure of providing information to reporters from foreign countries, Hong Kong, Macao, and Taiwan; as well as improving the work of the government spokesman. All this does not mean trying to restrict the work of foreign reporters.

At the end of the interview, Zhu Muzhi hoped TZU CHING magazine would devote greater efforts to briefing overseas readers on the situation on the mainland and answer difficult questions for them, to enable them to obtain a timely and systematic understanding of things in various fields in China. Zhu Muzhi also wished to extend his regards, through TZU CHING, to friends in Hong Kong's press and cultural circles, as well as to readers of TZU CHING.

Ministry Predicts Rise in Radio, TV Coverage

HK0706040791 Beijing CHINA DAILY in English
6 Jun 91 p 3

[By staff reporter]

[Text] Radio and television coverage in China will reach 85 percent of the population by the end of this century.

Most cities will have six or seven radio wavelengths and four or five television channels. In the countryside there will be five or six radio bands available.

This is the message from the Ministry of Radio, Film and Television, which supervises CCTV, CPBS and Radio Beijing. Officials said that the past decade had been golden years for radio and television development.

By the end of last year, China had a total of 639 radio stations and 509 TV stations, the respective coverage reaching 74.7 per cent and 79.5 per cent. China has also set up 13,753 satellite TV ground stations since 1986. And in the countryside, there are more than 82 million loudspeakers.

Officials also noted that by 1990 Chinese people owned 380 million radios and recorders, and 178 million TV sets.

In recent years, CCTV has created many new popular programmes.

Air University, co-sponsored by CCTV and the State Education Commission, trained 950,000 graduates during the 1985-90 period, and CPBS now broadcasts three national programmes, two special programmes for Taiwan, and five minority language programmes.

Radio Beijing is now third in the world for its multiplicity of broadcasting languages and length of broadcasting hours, with listeners in more than 140 countries and areas.

Chinese radio and TV stations revealed their proficiency during the 11th Asian Games, when their programmes were widely praised by Asian countries.

However, nearly 300 million people—20 per cent of the population—still do not have access to radio or television.

Most of them live in the remote rural areas, where the coverage is only about 40 per cent. For them, the choice of programmes is narrow. Most provincial TV stations produce less than two hours of programmes every day.

NATIONAL AFFAIRS, POLICY

Relationship Between Central, Local Governments

91CE0575A Shanghai FUDAN XUEBAO: SHEHUI KEXUE BAN [FUDAN UNIVERSITY JOURNAL: SOCIAL SCIENCE EDITION] in Chinese No 2, 15 Mar 91 pp 27-36

[Article by Wang Huning (3769 3337 1380): "Balancing Centralization and Decentralization—Harmonizing the Relationship Between Central and Local Authorities"]

[Excerpts] In the course of China's modernization, the relationship between central and local authorities has become increasingly critical. Many conflicts and imbalances mar the relationship at this level, and they must be corrected. They not only strain the central-local relationship but will eventually affect the whole process of social development. This article analyzes the recent phenomena of disequilibrium between the central and local authorities and suggests several ways to balance centralization and decentralization and harmonize future central-local relationships.

1. The major causes of disequilibrium between central and local authorities at present are found in the economic domain. The most obvious signs of disequilibrium are also found in the economic domain. Basically, they are manifested in the shrinking functions of the central government and the expanding role of local governments. This dual trend is caused by the new guiding ideology and compounded by actual conditions since reform.¹ Since reform and opening up and the devolution of power, regulation and control of China's society (primarily in the economic realm) has undergone the following changes: A. The highly centralized method of regulation and control has been replaced by decentralized, local regulation and control. Much of the central government's regulation and control functions has been handed down to localities. B. A substantial portion of the regulation and control capacity once monopolized by the central government has shifted to localities, whose regulation-and-control role has expanded noticeably. C. Society's resources, which are the basis of the central government's regulation-and-control capacity, have been redistributed, and the result is an obvious increase in the amount of resources at localities' disposal. D. To a larger extent, the central government must depend on localities for its share of society's resources. The old situation where one side gave and the other took no longer holds. Driven by a combination of these four major factors, the central government's regulation-and-control capability has diminished, both relatively and absolutely. This implies that as central authorities' regulation-and-control capacity shrinks and localities' capacity expands, more power is shifted to local governments. In other words, society's regulation-and-control power is shifting toward local governments.

The central government's reduced regulation-and-control capacity is indicated by the following

changes. A. Its share of fiscal revenue as a percentage of the national income has fallen, and its share of fiscal revenue as a percentage of total revenues has also decreased. Fiscal revenues' share of national income was 37.2 percent in 1978; 28.3 percent in 1980; 25.0 percent in 1986; 21.6 percent in 1987; and 19 percent in 1988. Fiscal revenues' share of total revenues was 52 percent in 1985, and 47.2 percent in 1988. The central government's revenues have increased 0.15 percent a year, while local revenues have increased 17.4 percent a year.² This means that the share of society's resources controlled by the central government has decreased sharply. B. The scope and the proportion of mandatory planning has been curtailed. Between 1984 and 1988, the number of product categories under the State Planning Commission's mandatory plan was from 128 to around 60. The number of products administered by the various specialized departments of the State Council also clearly declined. According to data gathered in 25 provinces, the value of industrial products under mandatory planning amounted to only 16.2 percent of 1988's total output value. Objectively speaking, this means that the central government has lost much of its macroeconomic regulation-and-control capability.³ C. The central authorities' investment capability has diminished. Since the central government handed down the power to make investment decisions and implemented the system of central and local governments eating out of separate financial pots, it has given up a substantial portion of its investment-making power. The concrete result of this is that in 1985, while society's total investments in fixed assets equaled 254.318 billion yuan, only 44.883 billion yuan of it came from investments within the state budget. D. Fewer enterprises are under central control. The central government only controls approximately 1 percent of the nation's industrial enterprises. This makes it difficult for the central government to expand its control capability. The changes in the above four areas are the main causes of the change in the central government's regulation-and-control capability. In an objective way, they have diminished its regulation-and-control capability to the point that even if it 'the central government feels a need to implement macroeconomic regulation and control, its ability often falls short of its ambition, and matters are now beyond the reach of its power. The central authorities' loss of relative and absolute regulation-and-control capability was partly why it took so long to restore order when chaos and confusion plagued the economy two years ago.

As the central government's regulation-and-control capacity diminishes, localities' regulation-and-control capability soars. According to some scholars, at least 45 percent of the nation's economic activities are carried out by localities.⁴ Their newly expanded authority, increased financial resources, enhanced real economic strength, and increased regulation-and-control power have increasingly turned localities into society's main regulation-and-control bodies. Because the central government does not have sufficient regulation-and-control

capability, it in fact must rely on and be propped up by the localities, which are in control.

II. Expanding local regulation-and-control capacity is a choice China voluntarily made as part of its reform. In an "oversized society" like China, it is hard to imagine that we could rely solely on the central government to regulate and control the whole society. From the point of society's total resources, it is unrealistic, and it is also quite impossible technically. From the point of promoting modernization, only by giving play to the positive factors at the central and local levels can we truly regulate and control society effectively. The choice of expanding local regulation-and-control capability was correct, and the disequilibrium should not have come as a surprise. The key is, we should have fully considered all possibilities when we made this choice, and we should have found out how well China's society could tolerate changes in regulation-and-control methods, how far we could push expansion, and how to readjust in the face of continuous disequilibrium. In addition, the most important thing is that we should have thought about what the overall central-local relationship should be when changing the old system. We have not considered these things carefully or in advance. To be sure, in undertaking this magnificent task of bringing about change, conflict, disorder, and confrontation will be unavoidable. All reforms and social changes are processes which begins with the old equilibrium, followed by the disturbance of this equilibrium, followed by the achievement of a new equilibrium; this is also a process of the old order being disrupted and replaced by a new order. After the cycles we went through earlier, the disequilibrium is obvious, and the disorder is apparent. Now is the time to take a further step and consider a new overall mode.

To put it bluntly, the imbalance in the central-to-local relationship is basically an imbalance in the integrated regulation-and-control system. This is manifested both vertically and laterally. The imbalance in integrated vertical regulation and control refers to the disorderly situation in overall society caused by the failure to meet the regulation-and-control goals set by central authorities, as well as by the fact that some general and local activities which should be regulated and controlled by the central government have escaped central control. One of the most vivid, concrete example of this is that mandatory planning has lost much of its clout, and an increasingly smaller part of the state's mandatory plan is being fulfilled. For example, in the first six months of 1989, the quota completion rates for several major goods and materials continued to drop: the completion rate for steel materials was 81.6 percent; nonferrous metals, 87.9 percent; and coal, 89.9 percent. The situation in 1988 was even worse; some localities basically did not even try to fulfill certain planned quotas, such as those for cotton and tobacco. Other phenomena, such as the inflated scope of fixed-asset investment, expanding consumption funds, non-individual consumers' soaring purchasing power, excessive scale of loans, and over-development of

the processing industry, all signify the loss of regulation-and-control capacity at the central level. The responsibility to regulate and control society's ordinary activities lies with the central government, but it no longer has sufficient ability nor the proper mechanism to effect integrated vertical regulation and control. In the end, it can only take administrative or political steps to interfere by force. This is indeed a dilemma. Non-interference would exacerbate the confusion in society and make the new equilibrium unattainable. Intervention would be coercive, and it too would collide with the course that complies with society's law of motion and delay the achievement of a new equilibrium. In comparison, however, rather than see the possibility of a new equilibrium vanish because of social disorder, we would be better off delaying the process of achieving the new equilibrium while holding on to the possibility. Of course, the ideal situation is not to let things get to this point.

The imbalance in integrated lateral regulation and control is even more serious. It has become a hot new topic of discussion. Some people have gone so far as to describe the economy as a "warlord economy." Local protectionism, regional blockades, and market segregation contribute to this situation from different directions. The imbalance in integrated lateral regulation and control is the product of the imbalance in integrated vertical regulation and control. The central government is unable to effectively regulate and control the behavior of various localities at the key links, which allow the latter the leeway to find loopholes and make their own rules. Lateral disequilibrium is to a large extent a structural problem. It is the by-product of localities' rise in the position of principal regulator and controller. The traditional system stressed a vertical structure—that is, a regulation-and-control relationship between central and local governments—and not a horizontal relationship between localities, which is why it was called a highly centralized system. Once the ties of the vertical structure are loosened, there will naturally be no systematic order of motion to bind the regions; as localities become more interested in their own profit, regionalism is inevitable. Regionalism can be looked at as the most serious disease in the unbalanced central-local relationship. To achieve a new balance, we must treat this disease first. The main symptoms of regionalism are: A. Localities use administrative means to interfere in enterprise production and in enterprises' right to make management decisions. They prevent local enterprises from buying the necessary goods from around the country as they see fit. Instead, they require them to buy local products or match local products to goods purchased from the outside. B. Localities set up their own tax offices on roads, at train stations and docks, or at provincial borders to obstruct the normal transportation of goods and prevent outside goods from entering the local market. C. Localities impose their own fees, raise tax rates on outside products or on enterprises that sell or utilize products made outside the region, draw up penalizing regulations to block market access, seize enterprises' legal income, and

exceed the limits of their authority to illegally reduce or exempt taxes of enterprises that sell local products. D. When it comes to credit and loans, enterprises selling non-local products are not given the same treatment as those selling local products. They have limited access to loans, or must pay a higher interest rate. E. The margin between the selling and purchasing prices and the margin between the wholesale and retail prices of similar products from outside the region are deliberately suppressed or arbitrarily raised. Because of these methods and local policies, market barriers between regions have developed into a fairly serious problem. Setting aside other reasons (such as bribery, transportation problems, and prices) which can lead to similar situations, policy-oriented market barriers—caused by local regulation-and-control behaviors—are already obstructing the normal flow of the economy and are slowing and jeopardizing the healthy progress of modernization. This prompted the State Council to issue the "Notice on Breaking Down Regional Market Blockades" on 10 November 1990. The imbalance in lateral integrated regulation and control exacerbates the imbalance in vertical integrated regulation and control, because the sharper and more violent the conflict and clash in vertical regulation and control, the more shallow and less effective is lateral regulation and control; there is a direct correlation between the two. Thus, much of the current vertical imbalance is due to a loss of lateral balance.

We must be aware of another important issue here: the central-local relationship is not only affected by vertical factors but also by lateral factors. To smooth their future relationship, we must consider both of these elements.

III. The vertical and lateral imbalances have produced several negative effects. They are seen primarily, but not exclusively, in the economic domain. Let us first consider the economic issues. It is generally acknowledged that regional protectionism produces the following phenomena: A. It protects backward local enterprises. Local backward enterprises often receive financial subsidies and enjoy tax exemptions, reductions, and other preferential treatments. The state's backbone enterprises are at a disadvantage when competing with them. B. It leads to excess investment. Local governments use many methods to protect local investment projects, making it even more difficult to regulate and control extra-budgetary funds and reduce the scope of excess investment. C. It creates an unreasonable industrial structure. Localities want to control all phases of production, and so while they have a full array of industries, they are all on a small scale. As a result, raw materials, energy, transportation, and communication facilities are in short supply, and imports are often duplicated. D. Enterprises' economic efficiency is declining. There is a growing number of small enterprises. They are technically backward and economically inefficient. They use up raw materials and rob technically strong, economically efficient, large and modern enterprises of their means of production. E. It gives rise to regional market separatism and obstructs the proper flow of capital goods and final

products. F. It greatly impairs product quality. Because of regional protectionism, many substandard products flood the market, shutting out quality goods. This poses a danger to society. G. The integrity and effectiveness of the state's macroeconomic policies are jeopardized.⁵ To protect their own interests, localities have devised ways to deal with the central government's policies, or they just carry them out in a perfunctory way. As a result, the central government's regulation-and-control measures exist in name only; they are a mere formality and are completely ineffective. Consequently, the central government's national regulation-and-control program may regulate but cannot control, nor can it guide the direction of society's development promptly and effectively. These are the negative effects found in the economic domain. Their adverse effects on China's economic development and modernization need no elaboration.

What deserves careful consideration is that the negative effects not only have economic implications but also political implications. The logical relationship between the two is obvious. The traditional system merged politics with economics; politics and economics were the same thing. Reform has made it less so, but they are still organically fused. If the economic functions bog down, the political functions will inevitably do so as well. Even if we should achieve a fairly ideal mode in the future, this relationship will persist. Engels long had a profound theory about the relationship between political power and economic functions: "State power may react to economic development in three different ways. It may respond in the same direction, and the economy will grow even faster; it may react in the opposite direction, or it may obstruct economic development by going in an entirely different direction, forcing the economy to move in this new direction. Eventually, this third situation will become one of the first two situations. Clearly, under the second and third situations, political power can cause serious damage to economic development and waste a lot of human and material resources." To a degree, if we replace "state power" with the term "local power," what Engels said vividly describes certain aspects of China's situation today. The only difference is, what Engels described was overall power and what we are analyzing is local power. In comparison, however, the regulation-and-control capacity and the jurisdiction of China's local governments are no less than that wielded by many European countries. As many as 18 provinces have populations over 30 million; nine have population over 50 million. Sichuan Province alone has more than 100 million people.⁶ China is an oversized society and an extra-large country. Its sheer size is one of the causes of the imbalance in the central-local relationship. In practice, local governments often have a hand in local economic activities. It is fair to say that if not for political and administrative interference, there would be no regional market separatism or protectionism. Some economists suggest that China has the "basic setup in which a government-monopolized market and disorderly market competition exist side by side." Their definition of this type of economy is one in which the

"state (government) still plays the main role and makes the final decisions. In other words, government monopolies still dominate."¹² In fact, a regional market blockade is a special kind of "local government-monopolized market." In the past, it was a state-monopolized market, where the central government implemented regulation and control at the central level. Today's market is in essence still the same, but the regulation and control role has shifted to local governments, and the objects of regulation and control are the markets which coincide with the administrative divisions. Looking at the relationship at this level, the non-economic implications of the above behavior are obvious. Imagine a society where local governments use their administrative power to protect local interests. How can society's integrated vertical and lateral regulation and control function?

From the political point of view, the negative effects of regional protectionism are indeed worrisome, because they undermine the implementation of state policies and orders and jeopardize the country's political wholeness. With respect to implementing policies and orders, regional protectionism prevents many policies from being carried out, some policies which the central government has formulated to facilitate the country's overall development needs cannot be carried out. Some are being complied with publicly but violated privately, some are resisted with a combination of soft and hard tactics, and some are openly disobeyed. This is especially so at the provincial level. For example, in 1989, to resolve the issue concerning the purchase price of silk-worm cocoons and prevent an "all-out cocoon war" in Zhejiang and Jiangsu, the State Council summoned officials from both provinces to Beijing for negotiations. It formulated a regulation stipulating that "with respect to cocoons and other major agricultural products, no region may make its own law, let alone use methods which violate state regulations or take matters into their own hands and deal with the consequences later."¹³ But some provinces simply ignore the State Council's regulation and do as they please.¹⁴ At the provincial level, lower-level governments also behave in the same way. For example, when Henan Province tried to prevent an "all-out tobacco war" in 1989, it had to deal harshly with Xochang County, Wenchi County, and Xingzhong County for violating regulations. They ignored purchase contracts, bought non-local tobacco, hiked up the price, and lowered the standard of purchases.¹⁵ This and similar incidents have been prevalent in recent years. Besides the adverse economic effects, we should also be aware of the political impact. Failure to implement policies and orders is a serious threat to any society, and even more so for a society in the midst of rapid modernization.

From the point of political wholeness, the non-standard expansion of local regulation-and-control capability, that is, expansion that is not subject to central regulation and control, causes regional splits. Regional market blockades artificially sever the organic ties between regions in economic matters and indirectly sever the organic relationship with respect to administration, policies, laws,

order, and functions. In turn they encourage the kind of profit consciousness, psychological structure, and collective organization that is regionally based. This can only harm and cannot possibly benefit a society like China which has always had a lateral organizational structure and which is not highly developed. If this trend develops further, it will become the "prototype." One can imagine what it would mean for the political wholeness of the entire society if all local governments had their own independent interests and demands.

Thus, in pondering the balance in the central-local relationship, we must consider not only the economic but also the political aspects. Political consequences are the product of economic motions. They are more subtle, insidious, indirect, and long-termed. Yet, so far as promoting a society's modernization is concerned, and from the point of guaranteeing the social stability and political unity of a society in the midst of modernization, logically, political considerations should be put before economic considerations, although the latter may precede the former chronologically.

IV. Looking at the trend of development, an over-sized society inevitably must hand down power to lower levels and obtain resources in a decentralized way in order to satisfy its needs. However, if we embark on this course too soon or too fast, or we should say improperly, before all the conditions have been met and perfected, we are bound to fail. Before we analyze the new balance, we should first look into the cause of the above dual tendencies.

Basically, the causes can be summed up as

1. Since Chinese society began its modernization process, all facets of society have formed expectations and made demands which by far exceed the amount of social resources under the centralized regulation-and-control system. In other words, they exceed the limit of the central authorities' share of resources. The centralized regulation-and-control system does not have the resources to satisfy the needs of hundreds of burgeoning industries, which are like a thousand boats getting ready for a race. It must arouse the initiative and the creativity of local regulation-and-control bodies and make them gather the necessary resources and meet their own needs themselves. This is an objective force. All-out modernization leads to an all-out increase in social demand and expectations, which forces the regulation-and-control center to ask localities to take part in gathering society's resources. To mobilize local regulation-and-control bodies, they must be given the necessary authority, allotted their own territories, and given the necessary freedom and power to make decisions. This is the first thrust behind the devolution of power after reform is implemented.

2. The single regulation-and-control center is unable to coordinate society's increasingly complex and ever-changing affairs. Under the traditional system, there was

only one regulation-and-control center, the central government. Since economic development was not the primary duty of the regulation-and-control center, and political responsibilities came before everything else, the regulation-and-control center's duties were fairly straightforward. Since modernization we have been overwhelmed by many long-unresolved conflicts and have been swamped by new demands posed by society's evolution. China's vastness itself means there will inevitably be overwhelming needs during modernization. The single regulation-and-control center simply cannot handle everything. Just like when we design an airport, we need to know how many times the planes are going to take off and land. If we determine that it should handle 1,000 aircraft, averaging one every 1.4 minutes, but it actually handles 3,000 aircraft, then the airport's control center simply will be unable to cope. Regulating and controlling society is the same. When society's affairs and demands mount, we must stress the role of local regulation and control, which forces us to expand local regulation-and-control capabilities. This is the premise for devolving administrative power, and it forms the second thrust.

3. Since modernization began, local regulation-and-control responsibilities have increased, and society's demands have also mounted. The beginning of modernization has meant the beginning of even greater demands. Localities face unprecedented pressure. Since the central government handed down more power, localities have been responsible for satisfying various needs. This signifies two new developments: regionalization of interests and diversification of interests. When interests are regionalized, localities must control more of society's resources in order to expand their regulation-and-control capacity; otherwise, they will have no way of fulfilling their newly acquired regulation-and-control functions with. People become more conscious of local interests in this process and, prompted by outside pressure, departmentalism is slowly but firmly becoming established in local regulation-and-control bodies. This is the first pulling force that moves localities toward demanding more power.

4. The current system has not been adjusted to suit the new situation and reduce the chances of disequilibrium since the devolution. Under the traditional system, forces that pulled toward the center were nurtured by the central government, and forces that pulled away from the center were controlled by the central government. Since the line between central and local functions was redrawn, some of the bases for fostering the centripetal forces and controlling the centrifugal forces have been lost. For instance, the bases for evaluating the local regulator and controller—such as the amount of money delivered to the central government, the regulator and controller's actual achievements, and how well local conflicts are being resolved—have psychologically prompted localities to demand more power. The central government's effort to restrain them appears inept in comparison, because the central government depends on

localities to regulate and control society and obtain its resources. Another example is that the system is set up so that local regulators and controllers are created and assessed by the local legislative organs, and the success of local legislative organs is judged mainly by how well they defend local interests. This is also one reason behind the local build-up. Various regionally based behaviors may have contributed to the prosperity of localities, but they have also encouraged localities to make their own rules. As a result, although there is a definite order linking localities to the central authorities, local regulation-and-control bodies compete themselves and secretly try to efface each other out. The central government is unable to regulate and control localities as a whole, and can only deal with each individually; this undermines its integrated macroeconomic regulation-and-control capability. These factors prompt the local regulation-and-control bodies to demand more power from the central government. This is the second pulling force.

The two main thrusts force the central government to hand down the regulation-and-control functions to localities while the two main pulling forces put the central government's regulation-and-control capability into the hands of localities. These separate forces work in opposite directions, one pushing from the top down (and the other pulling from the bottom up). Since there is no proper "degree," not an effective control mechanism, the aforementioned unbalanced phenomena are unavoidable. This process—from handing down power, reducing the central government's sphere of influence, and changing the "vertical" system to enterprise contracting, financial contracting, and foreign trade contracting—has evolved from the central government handing down power to localities, to localities taking the initiative to demand power from the central government. This process conceals a social complication which should not be underestimated, but we will not go into it here. The above-mentioned four forces objectively exist, and the effects the various resulting subjective factors have on the central-local relationship should not be overlooked. Since these are objective forces, we must include them when we contemplate the balance between central and local regulation-and-control capabilities at present; in fact, we should make them the basis of our considerations.

V. At this point we still have not found the source of the imbalance in the central-local relationship, but we know that the above four forces come from this source. At this stage of development, we can be sure that the source is the conflict between society's limited resources and society's total demand in the course of modernization. Society's total resources refer to the sum total of how far mankind has gone in conquering nature and how much mankind has created on its own; it includes all factors, material and non-material.¹² Under the traditional system, the central government was responsible for disposing these social resources and distributing them centrally. Under the new system, the central government is relying more on localities to ease the pressure, and in

the same time it is allocating some of the social demands and some of the resources to localities. The localities never receive enough social resources to satisfy mounting social demands, and therefore they tend to demand more power from the state or simply exercise more power on their own. The interaction between the two eventually leads to a two-pronged imbalance. (page omitted)

10. The modernization process is also a process of overhauling society's various mechanisms, relationships, and activities. This is because modernization has led to an unprecedented surge in China's productive forces. The rapid development of productive forces will eventually have an effect on the social system. As Marx said, "There is a close link between social relationships and productive forces. As society acquires new productive forces, people will change the method of production, and as the method of production—*that is, the method that guarantees one's livelihood*—changes, people will change all of their social relationships."¹ The effect of productive forces on the social system is a continuous process. The final result often will not become apparent until much later, prior to that, there will be many intermediate stages. Overall, China's modernization process will eventually forge a new and harmonious relationship between central and local authorities. But there will be disorder in the interim. The basic reason is that modernization upsets the old balance, and it takes time before a new balance can be reached. If we can accurately pinpoint the direction of this new equilibrium, deliberately move in that direction, and at the same time deliberately control the energy of disruption released at the time the old balance is upset, then we can speed up the process of striking a new balance, and pay a smaller price.

A modern society should be one with an expanded capacity for local regulation and control. This is a trait common to all modern societies. When we make lateral comparisons, we must be aware that societies at different levels of development have different historical roles in the central-local relationship. A balance between centralization and decentralization can be struck only if we have amassed a certain amount of social resources. We believe that as society continues to accumulate more resources, new balances between centralization and decentralization will continue to emerge. After we have amassed a certain amount of social resources, we will be able to strike a balance between centralization and decentralization in which we can depend on the central government vertically and on localities laterally.

Footnotes

1. Please refer to my earlier work, "The Relationship Between Central and Local Governments in a Changing China: The Political Implications," FUDAN WENBAO [FUDAN UNIVERSITY LITERARY JOURNAL] No. 3, 1988.

2. See China Statistical Yearbook, 1989, Jingji Guanti Chubanshe, 1990.

3. See Zhang Feng (1928-8912) et al., "Thoroughly Understand the Out of the Fifth Plenary Session of the 13th Party Central Committee, and Implement the General Policies of Improvement and Rectification and Deepening Reform With Even Greater Conviction," GAIGE YU LILUN [REFORM AND THEORY] No. 6, 1986 p. 3.

4. Yue Songsheng (1471-7313) 2639, "The Issue of Stability and Harmony During China's Development," FAZHAN [DEVELOPMENT] No. 6, 1986 p. 1.

5. RENMIN RIBAO 23 November 1990.

6. See Li Anguang (2621-1344 1684), "The Seven Perils of Local Protectionism," ZHONGGUO JINGJI TANJI GAIGE [CHINA'S ECONOMIC REFORM] No. 2, 1990.

7. "Engels' Letter To Conrad Schmidt (27 October 1890)," *Selected Works of Marx and Engels*, Vol. 4, p. 483.

8. "Circular On Important Data From the 1990 Census (No. 23)," RENMIN RIBAO, 7 November 1990.

9. "An Analysis of the Workings of a National Economy With Two Co-existing Market Systems," FUDAN XUEBAO, No. 1, 1990 pp. 1-7.

10. RENMIN RIBAO, 4 October 1989.

11. *Ibid.*, 23 July 1989.

12. See Wang Huijing's "Society's Total Resource and Social Regulation and Control: The Chinese Implications," FUDAN XUEBAO SHEHUI KEXUE BAN, No. 4, 1990 pp. 2-11. [Note: footnotes 13-28 pertain to omitted passage]

29. Marx, "The Metaphysics of Political Economy," *Collected Works of Marx and Engels*, Vol. 1, p. 108.

Shenzhen Integrates Planned Economy, Market Regulation

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[Article by Liu Wenshan (0491-2429 7100) "The Experiences of the Shenzhen Special Economic Zone in Combining the Planned Economy with Market Regulation"]

[Text] Combining the planned economy with market regulation is in line with China's efforts to develop the economy in a creative way. The Shenzhen special economic zone (SEZ) is developing its economy according to this model. It attaches importance to planned macroeconomic regulation and control and it also gives full play to the regulatory role of the market. Compared with inland provinces, market regulation in Shenzhen is greater in scope, flexibility, and utilization. One can say that within the context of macroeconomic regulation and

control, Shenzhen places top priority on market regulation. Experience in Shenzhen has shown that economic planning and market regulation are compatible.

1. Strengthening the market regulation and guidance provided by economic planning.

Shenzhen has reformed the old system in which everything was subject to excessively restrictive central planning, but has also continued to adhere to the advantages of economic planning. There are several different facets to planned regulation and control in Shenzhen.

First, there is a compulsory plan.

Compulsory planning applies to things that are controlled by the government. The annual compulsory plan includes mainly things such as the allocation of infrastructure development, population, the labor force, cadres, and university students, loans, the accommodation of foreign exchange, allocation of some means of production, and control of some prices. In these matters, Shenzhen sometimes follows state guidelines, sometimes provincial guidelines, and sometimes its own guidelines. The city government has a planning bureau in charge of this work. After the annual plan has been formulated, the entire city resolutely carries it out. In the past few years, the various guidelines mentioned above have not been violated. For example, the SEZ moved forward with great speed on infrastructure development projects and at one point, there were too many hotels and restaurants. Later, the government started enforcing its plan and carried out its work relatively well. As for the population problem, in the beginning, only the number of permanent residents was controlled and a few years ago the population was becoming too large. Now, there is a compulsory plan which limits the growth rate of temporary residents in addition to permanent residents. The allocation and price of major means of production have also been made subject to control. Shenzhen now controls the prices of 18 types of major means of production as well as 22 types of fees. For example, some prices for things such as steel, petroleum, transportation, and electricity have been put under control. This has been necessary in order to preserve production and the people's standard of living.

Second, there is a guidance plan.

This refers primarily to development strategies, medium- and long-term plans (the Sixth, Seventh, and Eighth Five-Year Plans), industrial policy, market information, and other things which guide the economy as well as enterprise operations. Although guidance plans do not directly impact macroeconomic activities, they play an extremely important role in macroeconomic regulation and control. There are a very important factor in Shenzhen. In these guidance plans, there are sometimes things that must be executed through administrative channels and are thus compulsory in nature. For example, projects that have been proposed under the industrial policy are subject to review and the decision on whether or not to approve them is an administrative

matter. In the beginning, project review was a relatively loose procedure and most plans were approved. Later however, projects began to be screened more carefully, and those which would result in pollution, involved low-level technology, conflicted with industrial policy, or duplicated existing investments were not approved.

Third, there is regulation and control through economic levers.

Industrial, commercial, price, taxation, auditing, banking, and customs departments all use economic levers to carry out macroeconomic regulation and control. For example, taxes and interest rates are adjusted to favor manufacturers and exporters in need of support, and the same levers can be used to curb the activities of manufacturers and enterprises which should not be developed. Sometimes, even electricity and water supplies are reduced. In addition, regulation and control are often carried out through prices, which are under government control.

Fourth, regulation and control are achieved through an oversight mechanism and through improvement and rectification.

Ever since the Shenzhen SEZ was established, it has gradually established and perfected various oversight mechanisms, including specialized government organs assigned to oversee industry, commerce, prices, and auditing. In addition, there is oversight within party, administrative, and judicial organs. All of these things serve as means of macroeconomic regulation and control. The government also uses administrative means to carry out improvement and rectification, the goal being to achieve regulation and control. Whenever a problem or imbalance is discovered, it moves to rectify the problem. Since Shenzhen established the SEZ, the government has carried out numerous readjustments and rectifications, and has strengthened planned macroeconomic regulation and control each time. For example, in 1986 it slashed investment in infrastructure by two billion yuan and terminated plans for the construction of 51 tall buildings. Since 1989, the city has earnestly concentrated on the task of improvement and rectification. It has controlled fixed asset investments and kept them within the guidelines of the central government. It has overcome chaos in the circulation link, and has closed down and rectified companies. Already, 730 companies have been either been closed or merged, and 267 enterprises which had been operating without a license or on unauthorized property have been put out of business. This is playing an important role in the continued, stable, and coordinated development of Shenzhen's economy.

Fifth, the government and various industrial associations have provided coordinated services. This is an indispensable part of macroeconomic regulation and control. Apart from coordinating funds, investments, industrial structure, and product mix, specialized government organs also provide information and serve as a

consultant and intermediary to enterprises and investors. In doing so, the benefits derived from macroeconomic regulation and control are increased. Shenzhen has a relatively large number of industrial associations and these are basically unofficial organizations. These associations maintain close contacts with the enterprises and businesses in their industries. They serve production and business operations by disseminating information and facilitating communication. They also reduce the conflicts within their industries. These industrial associations provide direct service for microeconomic activities but their role benefits macroeconomic regulation and control.

From these five aspects it is apparent that a system of macroeconomic regulation and control has been formed in Shenzhen and that planned regulation and control has performed its function relatively well.

II. Bringing the role of market regulation into full play.

In the past ten years Shenzhen has basically formed a market system. Markets for agricultural and sideline products, real estate, labor, capital goods, technology, information, funds, and securities have developed, and they are functioning in a basically normal manner. Within the Shenzhen economy, the scope of market regulation is quite large and the role of market regulation is being performed relatively thoroughly. Because the commodity economy is relatively developed here, and particularly because the outward-oriented economy is well developed here, international markets play a large regulatory role. Market regulation is primarily manifested in the following ways.

First, there is market regulation of funds.

Funds became an issue at the very outset of the establishment of the SEZ. State appropriations were very low, accounting for only two percent of the total budget. Where was the funding for massive infrastructure development to come from? In the beginning it was primarily a matter of loans and foreign investment, which represented a break with the traditional method of relying primarily on state appropriations for infrastructural development. This also led inevitably to the formation of a funds market. In addition to Chinese banks, there are already more than 20 foreign banks and offices in Shenzhen, so there are more channels for the accommodation of funds here than in the inland provinces. In the past ten years, infrastructural investment in Shenzhen has reached 18.2 billion renminbi. Bank loans have accounted for 19.31 percent of this investment, foreign investors have contributed 20.93 percent, investors from the inland provinces have contributed 16.7 percent, and enterprises in Shenzhen have raised 26.9 percent. It was precisely during this fund raising process that market regulation played a role. The Shenzhen SEZ was the first in the nation to establish a foreign exchange regulation center. The establishment of a foreign exchange regulation market played an important role in accumulating foreign exchange and regulating a supply of funds. After

the implementation of a shareholding system, issuance of stock, and establishment of a securities market, the market began to play an even greater role in the regulation of funds. Shenzhen now has five companies listed on its stock exchange and the face value of their issued stock is over 100,000,000 yuan, so all of the preparations for the establishment of a securities exchange floor have been completed. In the future, the flow of funds will become even more lively.

Second, there is market regulation of real estate.

The real estate industry is just getting started in Shenzhen and is a unique aspect of the new zone. When the new zone was first established, they had to build the infrastructure and thus had to buy and sell real estate. This was an important task in the early stages of the development of the special economic zone. As it developed, the real estate industry became more developed. The buying and selling of buildings and other architectural structures, which was formally subject to state monopoly, was turned over to enterprises. Land was once allocated by the government, but now land use rights are transferable, made available through public tender and auctions. Not only has this increased government revenues, but it has also spurred the development of the real estate market. In recent years, great progress has also been made in the commercialization of housing in Shenzhen. Not only has housing been sold as a commodity in society at large, but government organs are also trying out a system in which their cadres buy their own housing. After Hong Kong returns in 1997, the market for buildings and other architectural structures in Shenzhen will be further developed. This is an important aspect of market regulation in Shenzhen.

Third, there is the market regulation of prices.

This is an important and high profile area in which market regulation has been manifested in Shenzhen. Shenzhen was the first place in the country to deregulate prices, eliminate the grain rationing system, and deregulate the grain market. The city is allocated very little grain every year by the state so it is forced to go out and buy grain at negotiated prices or import it. The situation is the same with other means of production such as steel, cement, lumber, and petroleum, so it would be impossible for Shenzhen to buy these things without deregulating prices. Practice has shown that it is not feasible to rely completely upon the state. Prices for 97.4 percent of all products in circulation in Shenzhen are now deregulated and the government only controls the prices of 2.6 percent of the products. Deregulation of prices has not brought chaos, however. Over the past few years, the city has accumulated some experience in price management, and prices have remained relatively stable for the past two years. They even declined in 1990. After price deregulation, materials became more abundant. Taking the Bujia Wholesale Market in Shenzhen as an example, over 200 stalls have been set up involving the participation of 26 provinces, 340 counties, and more than 20,000 individuals. These stalls sell a wide variety of products.

The deregulation of prices revitalized the circulation link, stimulated and guided production, and promoted economic development. Prices are the most important market indicator and have a direct regulatory effect on the production and business activities of enterprises.

Fourth, there is market regulation of production.

The government basically does not directly intervene in the production activities of Shenzhen enterprises; it allows them operational autonomy and accepts market regulation, which means that enterprises have a relatively high degree of autonomy. There are four main types of enterprise production: 1) Production in response to orders, 2) production based on market forecasts, 3) production for the sake of test marketing, and 4) continued production of traditional products. Production to meet orders, in particular, represents a big change. It overcomes the old shortcoming of production and marketing being divorced from each other and assures that the final product will be sold. This preserves and stimulates the enthusiasm of enterprises for production. For example, the Zhonghua Bicycle Corporation has already accepted all the orders it can for 1991 and there are still a lot of orders it has had to turn down, so it is building another plant to increase production in order to meet market demand. Because Shenzhen is developing an externally-oriented economy, most of these orders come from Hong Kong and foreign countries. This is also an important means by which Shenzhen is subjected to international market regulation. Apart from paying legally mandated taxes and forwarding profits to the state in accordance with contracting agreements, enterprises enjoy a great deal of autonomy in matters of personnel, finance, materials, production, supply, and marketing. This facilitates efforts by enterprises to respond to market regulation, and it strengthens them.

Fifth, there is market regulation of raw and semi-finished materials.

The raw and semi-finished materials needed by Shenzhen, including the major, big ticket means of production, are mostly subject to market regulation. The state gives very little of the steel, cement, lumber, and petroleum which are needed every year, so enterprises in the city mostly buy for their own account on domestic and international markets. Furthermore, in order to avoid competing with inland provinces for raw materials, they mostly buy these things on international markets. Therefore, international market fluctuations affect Shenzhen directly. Raw and semi-finished materials and components needed for the various types of manufactured products are even more subject to market regulation. The ability to properly regulate supply and demand in this area has a great impact upon production because it can directly spur or limit production.

Sixth, there is market regulation of marketing.

The government does not guarantee that it will purchase products manufactured by Shenzhen enterprises, so they

have to rely on themselves to find clients and expand markets. Furthermore, it is primarily international markets that they are expanding. In this manner, enterprises must operate in harmony with market regulation. In Shenzhen therefore, when raw materials are imported and finished products exported and in great volume, the regulatory effect of the international market is especially apparent. In the past few years, Shenzhen has made great efforts to expand international markets, with much success. This is an important benefit of Shenzhen's development of its externally-oriented economy.

Seventh, there is market regulation of labor and personnel.

Shenzhen was the first to reform its labor system. It has implemented testing, hiring, and contract labor systems. Enterprises can hire and fire workers. Shenzhen has already established a labor market and is making heavy use of contracted labor. Market forces regulate labor sources and wages and enterprises themselves decide on the selection, testing, and hiring of cadres. Enterprises are also basically in control of wages.

Eighth, there is market regulation of technology.

The development, use, and transfer of new technology carries compensation, and is executed via the mechanism of market regulation. Although the government does invest in high-tech research, it cannot take complete charge of these activities; enterprises themselves must be involved in technological development. Many enterprises in Shenzhen attach great importance to this issue, have done a lot of work, and have achieved relatively good success. This is another area where market regulation has played a role.

Ninth, there is market regulation of information.

Information is an important resource. It is a productive force. The more an economy modernizes, the more important information becomes. It is very difficult to use the plan to manage information. The development, transmission, and use of information are all subject to market regulation. Shenzhen has established a large, modern information center which is currently playing a beneficial role in economic development.

In short, Shenzhen has combined the planned economy with market regulation, and within this context, the scope of market regulation is increasing. From capital goods to everyday consumer goods, from industrial structure to product mix, from allocation and circulation of production factors to the clothing, food, shelter, and transportation needs of the masses, these things are all subject to market regulation. The market is more flexible. It exerts regulation directly and indirectly through various types of signals and information such as market conditions, price conditions, interest rates, commodity supplies, purchasing and marketing volumes, transportation conditions, etc. As the role of market regulation increases, it spurs the production and business activities

of enterprises, the development of the externally-oriented economy, raises productive forces, and promotes reform of the economic system. You could say that a situation has arisen in Shenzhen where market regulation is the primary factor within a context of planned macroeconomic regulation and control.

III. Some preliminary lessons to be learned

After these several years of practice, the following preliminary lessons have been learned:

1. The planned economy and market regulation must be closely coordinated, you cannot have one without the other. Without planned regulation, control, and guidance, it would be difficult to do a good job of managing the major issues which have a vital impact upon the economic well-being of the people. It would be difficult to assure overall equilibrium, carry out appropriate readjustments, optimize economic structure, or enable the economy to develop in a continued, stable, and coordinated manner. Even developed nations which have implemented a market economy pay attention to the planned regulatory function of the government. Ours is a socialist nation. Our special economic zone is a socialist special economic zone. It is carrying out a system based primarily on public ownership, and we definitely cannot ignore planned regulation and control. At the same time, we must attach a great deal of importance to market regulation because we intend to develop a socialist commodity economy, and implementation of a commodity economy requires market regulation. If we operated as we did during the period of the product economy when excessively centralized planning smothered everything, it would be harmful to, and could not possibly spur the development of, the commodity economy. In particular, Shenzhen intends to develop its externally-oriented economy and enter into international markets. This means we have no choice but to accept international market regulation. Shenzhen is aware that its combination of the planned economy with market regulation is an important reason why it has been able to have rapid yet stable economic development.

2. In combining the planned economy with market regulation, we must bring the advantages of each system into full play so that each system will compensate for the other's weaknesses. The strength of the planned economy is that it views the situation from an overall standpoint and it provides for unified, coordinated, forward-looking, and planned action. It is a visible hand. It is a hand which can be controlled and manipulated. It is conducive to optimization of the economic structure, rational allocation and circulation of production factors, and maintenance of overall equilibrium. It facilitates relations between the central and local governments, between the state and collective interests, between the overall situation and narrower interests, and between society at large and individuals. It is also beneficial for the government's fiscal revenues and expenditures. The strength of market regulation lies in the fact that it manifests the law of value relatively well. It regulates

supply and demand as well as allocation relationships in accordance with objective economic laws, creates a competitive environment based on equality in which the strong survive and the weak are eliminated, stimulates the enthusiasm of enterprises and producers, and spurs development of the productive forces. The weakness of the planned economy is that it tends to become overcentralized. It is not conducive to efforts to revitalize the economy, and subjective and objective factors can work against each other. There are gaps in the plan and it cannot account for everything that is happening in the economy. The weakness of market regulation is that it acts blindly. It is an invisible hand that acts spontaneously. It sometimes causes clumps and exerts a destructive influence upon the economy. It is precisely a combination of the planned economy and market regulation which allows them to compensate for each other. The planned economy can curb the blind nature of market regulation, while market regulation can compensate for the deficiencies of planning by breaking the unnecessary shackles that it imposes on economic development and the productive forces. In other words, if the situation is well managed, the plan can curb the negative aspects of market regulation and bring out its positive aspects, while market regulation can compensate for the tendency of the plan to become divorced from reality and to smother economic activity. The two systems work together to achieve objective economic laws and realize the law of price. Shenzhen has done relatively well in this area. For example, at one time there were too many hotels and restaurants being built, which demonstrated the blind nature of market regulation, but the problem was curbed through planned regulation and control. Shenzhen's problems with the supply of raw and semi-finished materials and the marketing of its products could not easily have been resolved by the plan, and it was precisely market regulation which played a role in bringing about equilibrium between supply and demand, and between production and sales.

3. The planned economy and market regulation act upon each other. Planned regulation and control plays a role within the mechanism of market regulation. For example, decisions about what markets to establish or not to establish are subject to restrictions imposed by the plan. Shenzhen has already established a capital goods market and is now considering the question of whether foreign firms should be allowed to do business in the SEZ; some foreign firms have even come here to discuss the matter. In another example, imports and exports are subject to the restrictions of the plan. Even the most deregulated prices are also subject to the restrictions and guidance of the plan. The same is also true for construction projects and raw and semi-finished materials. In the same manner, some things in the plan are realized only through reliance on the market mechanism. They are not realized solely through the use of administrative means. This is true of plans for infrastructural development and credit. Enterprises and economic benefits are the micro-economic foundation of both the plan and the market. These two things combine together in economic benefits

to enterprises. If enterprises do not enjoy economic benefits, it will be impossible to achieve the goals of planning or market regulation. However, the microeconomic level must accept macroeconomic regulation, control, and guidance. What the market cannot resolve, the plan can. For example, both the plan and the market must play a role in long-range investments and large-scale infrastructure projects if these things are to be successful. For this reason, it is inappropriate to place the plan and the market in complete opposition to each other. It is undeniable that in one aspect the plan and the market are mutually exclusive. The plan must curb the blind and speculative nature of the market, while the market spontaneously exhibits a tendency to violate the boundaries of the plan. However, the plan and the market are also united in some ways. This is why they can be combined. When the plan is in harmony with objective laws and the law of price, the plan and the market are united. When market activities can promote healthy economic development without leading to chaos, the market is united with the plan. For this reason you could say that efforts to realize the law of value, realize objective economic laws, achieve economic development, and bring about the development of the productive forces is the point at which the two combine and unite. We must be adept at seeking and controlling this point of unity, and we must spur the two systems to combine even better. This point of unity has an objective existence but can also be controlled, which means that as we formulate the plan, we must fully study and understand market conditions and skillfully make use of the plan to guide, discipline, and promote market development and activities in order to facilitate market regulation of the economy. At the same time, we must pay close attention to market trends and be aware of where it conflicts with the plan so that we can use various tactics to adjust it and make it facilitate efforts to achieve the objectives of the macroeconomic plan.

Centralization, Decentralization Discussed

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[Article by Chen Yuan (7115 0337), vice president of the People's Bank of China, edited by Bian Qi (8708 7871): "Deep Problems, Options in China's Economy"]

[Text] 1. Forward to Rejuvenation or Backward to Disintegration?

After 10 years of development and reform, China has greatly enhanced its economic strength and the flexibility of its economic system. This will be of great help to the further development of our economy because it makes it better suited to the international economic environment. However, new problems and contradictions have also emerged at a deeper level during this period. Although economic improvement and rectification in recent years have achieved notable results in stabilizing the economy and society, deep-level contradictions that have accumulated over the years have yet to

be resolved. It should also be pointed out that the people's views on these problems are still very divided. In my opinion, control of total supply and demand is the most difficult task and constitutes the principal aspect of the contradictions.

We should see that although the problem of excessive total supply and demand has been somewhat ameliorated, structural problems are still acute because the structural basis for reducing excessive total supply and demand has not yet been formed in our country and because the mechanism responsible for the continuous "regeneration" of the "double expansion" of investment and consumption has yet to see fundamental change. Put more precisely, the excess processing capacity resulting from one-upmanship and repetition in imports has not yet been truly and earnestly readjusted and the problem of overdeveloped and underdeveloped industries remains as before. Because of the sluggish market, enterprises can no longer shift their burden onto consumers through price hikes. The pressure of "excessive distribution" is passed on to enterprises and must suffer a drop in economic returns under these heavy burdens. The fact that enterprises which are performing poorly are not in a position to close down, suspend operations, merge with others, or switch to other lines of production, and that inferior enterprises cannot be eliminated from economic operation, and the percentage of central revenue in the national income is sliding still further all means that the economy is in grave danger of becoming increasingly out of control and is falling apart.

There are close links between structural imbalance and a lack of equilibrium between total supply and total demand. If the current structural problems cannot be resolved in good time, they are bound to further tilt the balance between total supply and demand, and the excessively inflated benefactors will further solidify their already displaced interests. This will expedite further expansion of the processing industries, which already have surplus capacity, and thereby compel the central authorities to make further concessions in matters of finance, taxation, credit, and pricing, and further eliminating the constraints on excessive demand. The disintegration of the economy at the macro level will extend from investment, public finance, and taxation to monetary affairs, pricing, and foreign exchange. In fact, this process of corrosion and disintegration is already taking place, although not many people are aware of this.

The retrenchment and reduction of excessive total supply and demand cannot be abandoned halfway. When the readjustment of total supply and total demand is producing initial results, we must get on with structural readjustment without losing any time. Unless structural readjustment is successfully carried out, we will not be able to keep total supply and demand under control. If we hesitate or turn back, all our previous efforts will be wasted and total supply and demand will once again expand. Now is the crucial moment to carry out structural readjustment. Unless we press ahead, we will be swept back.

However at this crucial moment for carrying out structural readjustment, there is a tendency to overlook or slight its importance. Some people see slow-selling products as areas to inspire activity and maintain that the key lies in activating the market. Others take the oversimplistic view that what the Chinese economy needs is capital construction and increased investment. They think that since the Chinese economy has difficulty overcoming the "speed effect," we can only yield to reality, take care of the interests of all quarters, and satisfy their needs by expanding total supply and demand. Still others entertain the lopsided view that sees reform as microeconomic invigoration and decentralization of power. They fail to recognize that the maintenance of necessary market pressure is the prerequisite for enterprise reform and the starting point for the cultivation of true market mechanisms and pricing signals. Protecting and developing these new demands is where our hope for reform and developing a new operating mechanism lies. We must not lightly destroy these constraints or shy away from difficulties.

This trend of thought, which centers on the further decentralization of power and ignores the development of macroeconomic coordination, is bound to turn the national economy into numerous isolated fragments. Unhealthy demand will continuously smash resource constraints, eat into accumulation, empty the state coffers, and cause the state to lose its centrifugal force with the result that economic disintegration will lead to social and political decentralization. People will see a feeble central government and a number of "separate regimes" fighting for their respective interests. Despondency will prevail and the socialist edifice which we have built through long years of arduous labor will fall apart. Even a modern capitalist country, to say nothing about a unified and strong socialist country, cannot afford such a serious degree of decentralization. Unless we remain of sober mind, the enthusiasm which we have tried so hard to arouse will turn into blindness and we will go astray.

We all agree that now is the golden opportunity for reform, but some comrades still pin all their hopes on microeconomic reform. We should not forget that loss of macroeconomic control is the direct cause of excessive expansion and structural imbalance. Without effective macroeconomic management, microeconomic reform will lose the necessary environment and will even go astray. That is why I say that now is the time to solve the macroeconomic problems.

Should we press forward toward rejuvenation or retrace our steps back to the decentralized and self-contained "small-peasant economy" and toward disintegration? This is a serious question which currently confronts us.

II. The Way Out Lies in Strengthening Macroeconomic Regulation and Control, Consolidating the Markets, and Constructing a New Centralization for the Modern Economy

In order to quickly hold in check the tendency toward decentralization, it is most important that we do the

following. Devote major efforts to increasing the authority and strength of the central government and construct a macroeconomic regulation and control system through readjustment of the existing framework, bring planning and the market into better balance, transform the organizational form of enterprises (particularly central enterprises), and promote the development and reform of the Chinese economy in an organized and orderly manner. At present, the task of primary importance is to increase the authority and strength of the central government and reconstruct the macroeconomic regulation and control system. This is also the primary task in the deepening of reform.

No doubt this implies a new centralization. The key question to resolving major contradictions now and in the future is whether or not the necessary power, particularly economic power with financial power at its core, can be centralized once again in the hands of the central government within a relatively short time. As soon as they heard the word centralization, some comrades said that this meant giving up on the reform and open policy, noting that we could ill afford centralization. There are also comrades who did not quite understand the implications and were afraid that this would lead to a situation where "control will be tightened once things get out of hand, and once control is tightened, everything will be suffocated." They overlook the following basic fact: All modern economies require centralized macroeconomic regulation and control over such matters as public finance and monetary affairs. This itself is an important guarantee of economic reform and the opening of the country to the outside world. Without this, our modern economy will degenerate into a decentralized and self-contained small-peasant economy and we will not be able to become an economic world power. In the new historical period, achieving a moderate degree of centralization of economic power is decidedly not simply repeating the recovery of power and centralization as was done in the past. The renewed stress on centralization has its objective necessity and this centralization is also fully backed by new provisions.

On the whole, economic readjustment over the past year has achieved the initial objectives of "eliminating the swelling," "allaying the overheating," and reducing the malignant expansion of total supply and demand. These initial successes were achieved by the central authorities through implementation of strict centralized control over credit, investment, consumption, and pricing. In doing this, the central authorities proceeded from the realm of finance and resorted to indirect means of control, supplemented by direct regulation and control. From this, we can catch a glimpse of the new form of centralized regulation and control of the macroeconomy. After total supply and demand have been basically brought under control, the task of readjusting the economic structure has become all the more urgent. Structural problems accumulated over the years are, in the final analysis, caused by decentralization and excessive expansion. Thus, in order to make the best of the present

opportunity to eliminate these structural problems, we must reorganize and readjust the power structure of various benefactors, streamline government departments and enterprises, and further "eliminate the swelling," so that the central government has greater strength and power in economic regulation and control, and has sufficient influence on the orientation, tempo, and stability of economic development. This task cannot be evaded or bypassed, and delay will mean disintegration.

In order to complete replacement of the old system by the new in an organized and orderly manner during the new period, we must make a renewed effort to centralize power in new areas and along a new orientation while delegating power. During the past 10 years, what we have had was an extensive mode of delegating power and concession of benefits by the central authorities. This produced some positive results but also caused new problems.

- Driven by the unrealistic mentality of seeking quick success and instant benefits, people disregarded the actual conditions of the commodity economy and ignored, even negated, the necessity for centralization in their pursuit of the absolute decentralization of power. Commodity relations were also allowed to play an excessive role in locality and department relations. The fact that this went beyond a reasonable limit resulted in the emergence of "economies of separate regimes."
- In the process of delegating power and conceding benefits, rather than making an effort to downplay intervention in the production and operational activities of individual benefactors, particularly enterprises, where conditions permitted and with a view to increasing supplies, we greatly weakened control over and constraints on demand. The greater the power wielded by benefactors at various levels, the greater the strength of expanded demand and the smaller the capacity to supply. It was in this excessively decentralized framework of development that the contradiction between unbalanced supply and demand grew increasingly acute.
- What made it worse was that these changes were prompted by a fundamentally erroneous concept. According to this concept, all benefactors should be completely equal under the existing economic system and could act in accordance with the principle of the commodity economy. The belief that claims of all benefactors (primarily demands) should be satisfied wherever possible and that one-upmanship over demand on the part of these benefactors was a matter of course, has directly aided and abetted the spread of the practices of "everybody eating from the same big pot" and the "iron rice bowl" on a new level and more extensive scale. As a result, different benefactors scrambled with one another for solid economic resources under the pretense of defending their rights. Locality and department relations which should not

have been commercialized were greatly commercialized, while enterprise relations, which should have been commercialized, were not only not adequately commercialized but were subject to all kinds of intervention. It should be pointed out that delegating power along this line has reached the end of the road. Promoting what is beneficial and abolishing what is harmful is the top priority in our current drive to deepen reform. In order to extricate ourselves from our present dilemma, we must readjust the power framework at a deep level, once again centralize those powers that should not have been delegated in the first place, and delegate power in those areas calling for further decentralization. Only in this way will we be able to eliminate the conditions in which "separate expansion" survives and develops, and remove the foundation for malignant expansion of demand.

Some people think that only through further decentralization can we develop the productive forces. They think that decentralization is necessary for the development of the productive forces and that centralization will hinder the development of our economy. This is also an erroneous concept. China is a backward, developing country. In a country such as ours, developing the economy will remain a strategic task for a long time to come. The development of the productive forces means more than simple self-innovation and expansion on the microeconomic level. What is more important is that we must first of all strike a balance between total supply and demand on the macroeconomic level to ensure the normal operation of the economy. This concerns the common interests of all members of society and serves the same function as does wielding political power in the political realm. Next, we must continuously optimize and upgrade the industrial structure stage by stage. All these efforts have to be organized, guided, and promoted by the central government. To achieve this goal, the important thing is to vest the necessary power in the central government. The idea that only enterprises and localities can develop the productive forces, totally disregarding the unique functions of the central government, is a reflection of the extremely narrow-minded concept of the scattered small-peasant economy, which has been proved primitive and outmoded by the successful experience of up-and-coming industrialized countries.

If we put economic and political considerations side by side, we will see all the more clearly the pressing need to strengthen centralization. As a vast country where economic development is extremely uneven, China just cannot do without a strong centralized government. If decentralization is allowed to take its own course, the economy will disintegrate, to be followed by political splits and divisions. In order to ensure economic development and political stability, further strengthen the nation's centrifugal force, raise China's international standing, guard against and eliminate interference and encroachment by foreign hostile forces, sufficient power must be vested in the central government. There is no other alternative.

Simply using the idea of recovering power to sum up the new centralization and reconstruction of the macroeconomic regulation and control mechanism is inaccurate. Actually, it involves advancing and retreating, recovery, and delegating power. Advancing means that the central authorities will extend regulation and control to cover all areas and links involved in the entire situation. Retreating means that the central authorities will, in those areas and links which do not greatly affect macroeconomic regulation and control, relax their control, and that departments and local authorities which have excessively interfered in enterprises, will be required to reduce their intervention. In particular, they will be required to rid themselves of some millstones which they should not be carrying so that they can advance unencumbered. Here, millstones refer primarily to the state's obligations to enterprises and their staff and workers under the system whereby "everybody eats from the same big pot." This practice burdens the state with heavy millstones and snags up much of the accumulation, making development difficult. On the other hand, it imposes limitations on enterprises and their staff and workers, rendering them unable to give further scope to their initiative. Recovering power means centralizing power in order to produce a framework of macroeconomic regulation and control which will promote economic development. The delegation of power means breaking down blockades and protective measures erected or adopted by localities and departments, developing a unified socialist market, reducing excessive intervention in enterprises, and allowing enterprises to face the market directly.

Consolidating the market constitutes another important aspect of the reconstruction of the macroeconomic mechanism. The rapidly developing unified socialist market has become the basic arena and setting for domestic economic activities. However, its structure and functions have not only been inappropriately developed but have also been partitioned due to unnecessary intervention. This kind of partition is not so much the reflection of resource constraints as they are of the interests of other benefactors. With our existing resource constraints, we are fully capable of further consolidating the structure of the unified market and augmenting its functions.

Because of this kind of partition, market signals are confusing, market functions are underdeveloped, market growth is retarded, and the circulation of resources is adversely affected. This has weakened the state's regulation and control mechanism as well as the market mechanism. As a result, enterprises cannot make the appropriate response to macroeconomic regulation and control by the state and to the unified market in their market strategies but are quick to react to intervention by other benefactors. State regulation and control signals and intervention by other benefactors alternate their role in the market, both trying to influence enterprises. More often than not, regulation and control by the state are ultimately distorted and elbowed aside.

In order to strengthen the state's regulation and control capability, efforts must be made to weaken the partitioning of, and interference in, the market by other benefactors, reduce excessive intervention in enterprises, streamline the intermediate levels, make the market mechanism more transparent, improve market structure, and increase the market functions. The state must be able to directly guide, regulate, and control the hundreds of thousands of enterprises through the unified market. Resources must be subject to unified regulation and control and their circulation must be restructured under the unified market mechanism to increase efficiency.

In order to reconstruct the macroeconomic mechanism, we must accurately and effectively carry out direct regulation and control, strengthen and extend indirect regulation and control, and ensure that these two types of regulation and control cover all aspects of the national economy. No "vacuum" will be tolerated.

Direct regulation and control means directly intervening in those products and areas that have a vital bearing on social stability, the national economy, and the people's livelihood through administrative means. Seen from the angle of value, this does not constitute the main aspect of macroeconomic regulation and control during the new period. However, it is still the foundation and cornerstone of the whole economy and cannot be taken lightly because it affects overall stability. Efforts must be made to keep under control those aspects which should be kept under control and to recover some of the powers that have been surrendered.

The development and strengthening of indirect regulation and control constitute yet more important aspects of the reconstruction of the macroeconomic mechanism and form important aspects of the improvement of the planning mechanism. After a decade of reform, the situation currently confronting us is as follows. Demand constraints have been further developed (resource constraints still have a formidable presence), commodity relations have been greatly extended, and the market has seen substantial growth. Unless these already developed economic relations are regulated and controlled, macroeconomic regulation and control will be incomplete and ineffective and will lag behind the needs of objective economic development. Although the market plays its role spontaneously, it still needs some form of intervention, such as the formulation of industrial policies and control of total supply and demand. The idea that the market is just an invisible hand that can automatically ensure the perfect allocation of resources is a reflection of the "theory that the market is omnipotent" and the idea of "a market utopia."

Experiences in other countries proves that the more developed the economy, the more necessary it is for the state to exercise control over its social demand. This goes against some people's beliefs. They think that the more developed the economy, the less there is for the state to do. This trend of thought has produced the following

practice. The power to regulate and control demand, which should have been firmly grasped by the central authorities, has been delegated to the lower levels in the course of decentralization, and income constraints, resource constraints, and administrative constraints on social demand have been weakened. To a certain degree, we can even say that control of social demand is now in a state of anarchy.

The fact that indirect regulation and control is an indirect means should not affect its effectiveness. We have had rich experience in this in the history of our party. In the first few years following liberation, we exercised indirect regulation and control over the light and textile industries. When we had the market under our control, the light and textile industries developed the way we intended, on the whole. Over the years, most areas of agricultural production have never been subject to direct control. We only exercised regulation and control over such matters as procurement and marketing, seed allocation, fertilizer supplies, and services. In recent years, we have made ample use of indirect means of regulation and control, such as financial and pricing policies, in the course of economic improvement and rectification. Facts prove that their effectiveness is by no means inferior to that of direct means of regulation and control. Under certain circumstances, they have produced even better results.

The reconstruction of a macroeconomic regulation and control system that has direct means of regulation and control as its cornerstone and foundation and has indirect means of regulation and control as its nerve center, is the central task during the new period.

III. We Must Restructure the Interest Framework

Reconstruction of the macroeconomic regulation and control mechanism is not something which can be accomplished overnight. It requires the transformation of the deep structure of the national economy. This means restructuring the benefactor framework.

The interest framework refers to the status of various benefactors in the national economy as well as their interrelations. It forms the deep structure of the national economy and determines its operating mechanism. Some of the major problems of our economy are external manifestations of the loss of balance and derangement of this deep structure.

After 10 years of reform, the economic system has evolved into an increasingly monetized economy that is under the two-tier regulation and control of administrative power and assets power, which may also be called a "dual-power economy." The major characteristics of this "dual-power economy" are as follows: 1) Administrative power is weakened. The original functions lack standardized forms of expression and clearly-defined operational channels. On the other hand, assets power plays an increasingly important role. However, this power has never been clearly defined and its boundaries are, as yet, unclear. Under the circumstances, the power, interests,

and responsibilities of different benefactors are obscure and asymmetrical. 2) The status of various benefactors has undergone conspicuous changes. The structural imbalance and "displacement" between different benefactors embodied in these changes find concentrated expression in the relationship between the central and local authorities. The liquidated growth of local interests and the excessively commercialized activities of authorities in the localities have relegated the interests of the central authorities to a secondary position, with the result that certain traits of "economies of separate regimes" are evident, and 3) The present classification of whole-people, collective, and individual ownership, and the corresponding management systems, are no longer suited to the new situation.

The restructuring and readjustment of the benefactor framework primarily refers to defining property rights within the public sector and renovating the organizational form of enterprises. The reconstruction and readjustment of the interest framework mean renovating the form of public ownership and defining the status and interrelations of various benefactors to stabilize the benefactor framework on a new basis. Public ownership is the fundamental negation of the private ownership of the means of production, but it is not immutable. It changes all the time with the development of social productive forces. Defining the boundaries of various benefactors within the public sector at the present stage is in fact the self-improvement and development of public ownership. The basis of the restructuring and readjustment of the interest framework is that the power and interests of various benefactors must correspond to their responsibilities in the national economy.

We must redefine the ownership of state-owned assets or assets owned by the central government. These are assets formed by state investment or preferential national policies. The function of these assets in the economy as a whole is to strike a balance between total supply and demand and achieve an optimum structure. Between different benefactors, such as the state, the local authorities, and enterprises, the state plays the leading role.

Local assets are assets owned by local governments. They are formed by local investment or preferential local policies. The main function of these assets is to respond to signals from the state's macroeconomic plans and from the market. Local governments should refrain from direct intervention in enterprises, shed some of their overly commercialized traits, and try instead to exert their influence as controlling shareholders, and allow enterprises to deal with the market directly. Seen from the socioeconomic functions shouldered by local governments, local assets have an important role to play in the development of local economies, the protection of labor and employment, and many other areas. Thus, fully bringing into play the enthusiasm of local governments is of immense significance in the development of our economy.

Department assets are assets formed by department investment or preferential department policies. They are in the service of industrial policies. Assets formed as a result of the exercise of investment functions on behalf of state interests form part of the state-budgeted investment of a department and cannot be regarded as department investment. These may be seen as state assets. Assets formed as a result of extrabudgetary investment may be regarded as department assets.

Enterprise assets are assets formed by enterprises with their own funds. They are in fact collectively owned by the enterprises concerned. The recognition of enterprise assets will help invigorate enterprises and arouse the enthusiasm of enterprise operators and employees, so that they are in a position to build up their own accumulation.

Private assets are assets formed by investment by individuals (including foreign nationals). They represent private ownership and are different in nature from the four types of public-owned assets mentioned above. At the present stage, these private enterprises play an important role in the drive to invigorate the economy. However, laws and regulations must be promulgated to ensure their healthy development. Most of the service trades and a considerable segment of small and scattered processing industries, such as catering and garment manufacture, have been privatized. We should continue to develop these civil sectors to give the economy greater vitality.

In the long term, the shareholding system should be the basic form of enterprise organization. On the whole, the shareholding system has public ownership as its mainstay. Previously, most pilot projects in this connection showed the erroneous tendency of "selling public property for one's own units" and "appropriation of public property for private use." After an enterprise switches to the shareholding system, it ceases to be the basic form upon which asset ownership is assessed. Through taking up shares, cross holdings, becoming the controlling shareholder and other means, the assets of different benefactors can be grouped together. This provides the basic conditions for bringing the relations between enterprises into better balance and helping enterprises become truly independent commodity producers and operators.

Such restructuring of the interest framework is the key to strengthening macroeconomic regulation and control, consolidating the market, improving the mobility of resources and the economy as a whole, and will ultimately solve structural problems.

IV. Resource Constraints Produce Demand Constraints: Planning Supports Market Growth

The restructuring of the benefactor framework will inevitably bring about a change in the economic operating mechanism. Under the existing benefactor framework, which is an ill-defined muddle, neither the planning nor market mechanisms can play their roles to the fullest,

find the standardized mode of combination, or ensure the optimum distribution and reorganization of economic resources. The restructuring and readjustment of the benefactor framework of economic interests provide the prerequisite for the organic combination of planning and the market on the level of economic operation.

In previous discussions on planning and the market, some people either consciously or unconsciously proceeded from the idealized concept and thought that the economy could be run harmoniously once a certain perfect economic mode has been established. That this mode of thinking gained popularity and exerted widespread influence on our economic development and reform strategies was by no means fortuitous. It had profound historical and international causes. Since the early 1980's, major Western capitalist countries witnessed steady economic development and a quickening tempo in their technological advancement. They deliberately attributed all these achievements to the free market economy. Meanwhile, socialist countries have been marking time in their reform and development. Some people have thus become all the more convinced that all difficulties can be overcome by relying totally on the free market economy. This mentality involves blind worship of the market and draws simple parallels between the modern market in Western economies, with planning under the traditional socialist economy. We are bound to come up with rigid dualist conclusions if we take this as the basis of our discussion on how to combine planning and the market. Subsequently, under internal and external pressure, we developed the theory and practice of replacing planning with the market. The consequences of this tendency are obvious to all. Here, it must be pointed out that the approach that proceeds from myths about the market and uses theory to shape reality, is fundamentally wrong. The scientific approach is to proceed from China's actual conditions and consider issues and sort out ideas in light of principal contradictions in the actual economy.

China is a big developing socialist country. Our economic objective is to develop into an independent economic power that does not attach itself to any country or bloc while actively participating in an international division of labor and economic exchanges. This objective itself determines that our development road will be different from that traversed by small countries which are in a weak position regarding the international division of labor. We will always maintain and develop a comprehensive and fairly advanced industrial system and national economic structure.

In order to realize this objective, we must have clearly-defined development strategies and industrial policies. With our present level of market development, we are not yet in a position to independently shoulder the heavy responsibility of fulfilling these strategies and policies. Resource constraints will remain strong for a fairly long historical period to come. The presence of these resource constraints stems from the basic national condition that we have a large population, that many resources essential

to economic development are still in short supply, and that per capita possession of resources is still low. Price signals alone are no guarantee for the complicated distribution of resources. On the other hand, following the development of the economy and structural reform, demand constraints have also quickly built in strength. The intertwining and coexistence of these two types of constraints cannot as some comrades wish, lead to the complete replacement of resource constraints by demand constraints. Resource constraints are mainly embodied in the fact that economic growth and changes in the industrial structure will ultimately be conditioned by certain underdeveloped, basic industries. For instance, the present level of agricultural development (particularly in grain, cotton, and oil-bearing crops) has imposed obvious constraints on employment, the people's livelihood, and the development of industries and other trades. Upstream industries are restricting the development of middle and downstream industries. Export and import capabilities and foreign exchange reserves also impose obvious constraints on the degree of international economic involvement, the upgrading of the industrial structure, and so on. Meanwhile, the "sluggish market," which has crippled large parts of the country since 1989, also shows that the effects of demand constraints are not to be overlooked and that their obvious macroeconomic significance will be increased in the days to come.

Thus, the relations between major sectors of the national economy are expressed in terms of the relations between the underdeveloped and overdeveloped industries. Between these two sectors, it is obviously that the underdeveloped industries are in a leading and predominant position. They are the basic roots for ensuring the steady operation and optimum development of the national economy. In order to resolve the contradictions between the overdeveloped and underdeveloped industries and ensure their balance within a given period, we need a most effective operating mechanism. The thing in common between planning and the market, as two different operating mechanisms, no doubt lies in the fact that they both attempt to regulate social supply and demand, but their function and mode of action are different. Toward those underdeveloped industries and areas where supply is short, we should mainly resort to regulation and control in the form of direct planning, toward those overdeveloped industries and areas where supply is excessive, we should mainly resort to market regulation. Since those industries and resource factors that are part and parcel of the basic roots have a controlling role to play in the allocation of production factors in other sectors, direct plans implemented in these areas will definitely occupy a basic and leading position in the overall system of operating mechanisms. What we mean by the leading position here has nothing to do with the absolute amounts of resources directly at their disposal, but to its influence over the operation of the national economy as a whole. This decisive influence finds expression in the fact that it has an irreplaceable role to play in guiding and restricting major economic

activities such as the stabilization of the operating environment and the realization of structural transformation. On the other hand, it safeguards the healthy development of the market. It should be made clear that, at the present stage, the direct planning mechanism is not only the basis for the development and operation of the market, but marks the object boundaries of market expansion. This important function of direct planning is fundamental and will last for a long time to come. Past experience shows that the time when the economy was chaotic and market operation was slow was also the time when the function of direct planning was overlooked or abandoned. To the contrary, when direct planning was given attention and rationally utilized, stable economic and social development, market growth and market order were guaranteed and the regulatory ability of market mechanisms was unprecedentedly strong. Thus, planning is the prerequisite for market growth. Without the support of direct plans the market will quickly weaken, disintegrate, and wither. As the underdeveloped, basic industries develop, this kind of direct planning will gradually be removed from macroeconomic regulation and control. A case in point is that after the textile industry is developed, "cloth coupons" will be abolished, and indirect regulation and control will become the mainstay.

In a broad sense, planning not only includes direct regulation and control by the central government in given areas (not restricted to mandatory plans) but also covers indirect regulation and control. As the economy has become more commercialized and monetized during these last 10 years or more, we have seen an obvious expansion of the spheres in which market mechanism plays a direct role. However, indirect regulation and control in these spheres have failed to keep pace. Thus, there are large areas where a vacuum and confusion reigns. It is in fact a kind of macroeconomic planning to implement effective indirect regulation and control in these spheres which are mainly regulated by the market mechanism. This kind of macroeconomic regulation and control of the market is a direct product of the market, and has market mechanism as its basis. Our aim in using indirect means to regulate and control the market is to incorporate the spontaneous role of market mechanism into the development orbit defined by the state, cause the hundreds of thousands of enterprises to compete through the use of rational pricing signals from the market; promote the superior and eliminate the inferior; press forward, and ensure that enterprises, on the whole, operate the way the state intended, and to have them serve the strategic tasks of economic development. We must understand this objective sufficiently. It is incorrect to think that indirect regulation and control means doing away with the planning mechanism, and allowing the market to act spontaneously and take this spontaneity as its objective. On the other hand, it is also incorrect to think that direct regulation and control means that planning can take the place of the market since we simply cannot subject hundreds of thousands of enterprises to direct planning. The market mechanism

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must be made more efficient, more direct, and more unified. Our present discussion on activating the market comes on the heels of retrenchment and the creation of a relatively free environment. Without retrenchment and appropriate exercise of indirect regulation and control, how can we begin to talk about activating the market? Retrenchment produces an effective market. If we can properly guide and utilize it, many good things such as enterprise efficiency, circulation of production factors, and innovation of products will appear under the intervention of the market and the industrial policy of indirect regulation and control.

All this shows that in correctly handling the relationship between planning and the market, the crucial thing is to first establish a "framework" and control it with direct and indirect plans. This way, the market will be activated and start to grow and, when correct industrial policies are applied to intervene in its operations, it will serve the objectives of macroeconomic development. This is the substance of the relations between planning and the market. They must be symbiotic and mutually dependent.

Pinpointing and determining the point and degree of combination between planning and the market at different stages also has an important bearing on whether or not their respective advantages can be fully brought into play. Seen dynamically, tightening and relaxation, the overdeveloped and the underdeveloped, are changing and shifting in different periods of economic development and in different stages of periodic economic fluctuations. As the underdeveloped becomes the overdeveloped, the economic scale expands, and the industrial structure becomes upgraded, new underdeveloped industries will appear. Hence, in the wake of these changes, it is necessary for us to re-determine the "point" and "degree" of the combination of planning and the market. Here, the only thing that will remain unchanged is the principle, not the specific mode of combination in a given period. Being unable to promptly develop the market and enhance the role played by the state in the indirect regulation and control of the market according to the objective needs of economic development, is just as one-sided and harmful as the tendency to rely excessively on the market and negate the role of the planning mechanism in total disregard of actual conditions and the development stage of the market. We must and should recognize the fact that quickly increasing the per capita possession of resources and products in China will remain an impossibility for a long time to come. This basic fact determines that the Chinese economy must be subject to direct regulation and control by state plans, the direct impact of the market and the indirect macroeconomic regulation and control, and the three symbiotic and mutually dependent forces which interact with one another. It will take a long historical period for the market to grow to maturity under the support of direct planning and the guidance of indirect regulation and control.

The market which features this organic combination should be unified and cover the entire nation rather than small markets which are separated and sealed off. It should be a market that forms a comprehensive system rather than a fragmented market without any links, and should be a unified market serving all enterprises. The state may precipitate the formation of the unified market by making use of the big economic regions. Planned intervention in the market should include both direct and indirect regulation and control. The state influences the market through direct regulation and control, that is, direct control of major goods and commodities, and indirect regulation and control in the form of financial, monetary, investment, pricing, and other policies, rather than taking the place of the market.

The function of the market mechanism is: The market is the basic form of interrelation between different benefactors. The new framework makes the interest boundaries between various benefactors better defined and clear cut, while the development of the commodity economy makes the economy more monetized. Because of these developments, exchanges and contacts between individual benefactors have to rely heavily on the market mechanism for their realization. From the perspective of the distribution and restructuring of resources, technological advancement will lead to the circulation and redistribution of economic resources. Demand will also change and develop according to its own law. Not all of this can be planned. Thus, in a healthy market served by rational pricing signals, important signals of resource distribution and restructuring form the market-pricing mechanism.

The scope of action of the market mechanism mainly covers the regulation of the supply of and demand for the overwhelming majority of consumer goods and certain intermediate, raw, and semifinished products. Restricted by the present economic structure and the underdeveloped industries, the market mechanism cannot cover all aspects in its regulatory and control function, although its effect is felt in all corners of the economy and its growth still cannot be separated from the support, regulation, and control of planning.

In the formation and structuring of the market system, the key lies in taking further steps to make existing products and the factors of production market conform to relevant standards, and in making positive efforts to develop and improve the financial market (including long- and short-term capital markets), labor market, technology market, and the foreign exchange market, ensuring that they support one another. The structure of the market system must be conducive to the readjustment of the existing stock of resources, the improvement of enterprise efficiency, and the strengthening of macroeconomic control over the microeconomy.

The market structure at the present stage is a stratified structure made up of several layers of interacting markets. There is the primary-level market, or the arena where the central government, local authorities, and

departments interact as the main players. Through this market, they coordinate changes in major economic sectors, the production layout, the setting of priorities in the industrial structure, as well as economic activities, such as investment in major projects, aimed at ensuring development stamina. In particular, it covers major industries like energy and transport where there is direct intervention by the state. There is the secondary-level market, that is, the market between enterprises. It is mainly here that circulation and reorganization of short- and intermediate-term production factors take place. The tertiary-level market is the trading place between production enterprises and the ultimate consumers of products. It is here that the rights and interests of producers and consumers are realized.

The function of the planning mechanism finds expression in the maintenance of macroeconomic balance, the continuous optimization of the economic structure, the periodic readjustment of the beneficiary framework, the guarantee of the overall initiative of the central government in financial matters, and so on. This basic function is universal and general, covering the whole situation. However, it does not directly affect the majority of enterprises. To achieve this objective, state plans resort to direct and indirect regulation and control respectively in respect of resource constraints. That is, in economic sectors where shortage is experienced and, in respect of demand constraints, economic sectors which are mainly regulated by market mechanism. In this kind of environment, the planning mechanism will naturally assume the important function of ensuring healthy market growth, strengthening the market system, and optimizing the market structure.

Mandatory plans still exist. Their scope of action covers products with a vital bearing on the national economy and the people's livelihood, underdeveloped, basic industries in the industrial structure, hi-tech areas in the course of economic development, import and export activities, and key enterprises with a major impact on the financial capabilities of the central authorities. The scope of mandatory plans will change in different stages of development and implementation modes are diversified and developing. However, for a long time, it will remain the cornerstone of the economy and will be a source of assurance for market growth.

The mode of combining planning and the market is diversified. In a market system where there is "stratified competition," direct regulation mainly acts on the primary-level market. This is done in the following ways: First, there is regulation of the market through control of important economic resources. Assuming the form of big economic regions, the state tries to intervene in economic activities through the market in order to maintain economic balance and market stability. Second, the state supports the development of key industries and optimization of the economic structure through direct intervention. Indirect regulation mainly acts on the secondary and tertiary markets. It relies on financial, monetary, taxation, and pricing policies and the relevant laws and

regulations to influence the market. It also has to maintain economic stability and an optimum structure in order to create an excellent external environment for operations in these two types of markets. These two modes of combination may find expression in the form of "mixed" regulation, with the state participating in the market, primarily the secondary market, through large state-owned enterprises. Through this, the state can exert its influence over related enterprises and ensure fulfillment of its development strategies. This is a kind of partly indirect regulation and control.

The special economic characteristics discussed above may be summarized as follows: Direct planning serves as the cornerstone, indirect regulation and control provide guidance, and market activities form the body. In other words, it is a kind of economic operation with planning as its foundation and nerve center, and the market as the driving force and mode. Planning and the market are symbiotic and mutually dependent. That direct planning serves as the cornerstone is determined by national conditions. That indirect regulation and control provides the necessary guidance is determined by the economic scale. That market activities form the body is determined by the interest motives of the main body. All these are governed by our objective to "stand on our own two feet in the world of nations" with our "big-nation economy."

Privatization No Way Out for Reform

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[Article by Su Lian (4725 3114), edited by Liu Qichang (0491 0346 2490): "Privatization Is Absolutely Not the Way Out for Enterprise Reform"]

[Text] There has been a viewpoint that the goal of enterprise reform is to realize the privatization of state enterprises and that the realization of privatization can overcome difficulties in enterprise reform. This kind of viewpoint has a certain impact and is worth analyzing.

There are many kinds of viewpoints with regard to the privatization of state enterprises. For example, some people think that state ownership has come to an end worldwide and that it has reached final negation. They conclude from the realization of privatization in certain countries that China should also go in for privatization. There are people who think that state ownership is incompatible with the development of the commodity economy and that if state ownership is maintained, it is impossible to develop the commodity economy, and to develop the commodity economy it is necessary to realize privatization. There are also people who think that according to the criteria of the productive forces, privatization should be realized, and that the idea that state ownership is the dominant factor goes against the criteria of the productive forces. They declare that the productive forces are the sole criteria for the disposition of the framework of ownership, and that which kind of

ownership accounts for how large a share and which sector of the economy serves as the dominant factor should not be laid down in advance.

Some people have even suggested methods for privatization of state enterprises. For instance, some suggested that state properties should be divided up among the individuals and realize the individualization of state property. "The so-called individualization of property, means economically a number of outstanding individual laborers will directly own means of production and enjoy and possess the economic results."

The idea of privatization is derived from Western economics and the advocacy by a number of scholars in Hong Kong and Taiwan. I heard a scholar from Taiwan declare: The number one Taiwan experience that the mainland should draw on is private property. He said: "Only those who own permanent properties have perseverance, and only private ownership can become the motive force for working and can stimulate people to work hard and raise production efficiency."

Is privatization the way out, or not, for enterprise reform in China? I think absolutely not. I am against privatization. However, I am not against the appropriate development of private economy under the prerequisite that public-owned economy remains dominant. At the present stage in the PRC, under the prerequisite of adhering to the principle that public ownership remains the dominant factor, private-owned economy should be allowed to exist and appropriately developed. So have we done since reform.

Judging from the present situation, private economy should continue to be developed appropriately, including the development of private enterprises. So long as management can follow up, I think there is nothing to be afraid of in appropriately developing some aspects of the private economy under the prerequisite that public ownership remains dominant. Not only will it bring about an expansion of the productive forces, but it will also benefit the consolidation and development of the socialist public-owned economy.

However, taken as a whole, China should not follow the road of privatization, and neither should privatization be encouraged for the state-owned economy. Some small-scale state enterprises, if they are not appropriate for state-ownership, can be sold to the collectives or individuals. It is advantageous to the growth of the productive forces and to the consolidation of the socialist relations of production. But this in no way proves that state-owned economy should be privatized.

Why cannot China follow the road of privatization? I will cite the following reasons.

First, there are now indeed quite a number of problems existing in state enterprises, but this does not prove that privatization can solve all these problems. It is an objective reality that contradiction exists between private ownership and the growth of productive forces. For

example, in capitalist private economy, antagonism exists between the proletariat and the bourgeoisie, anarchy of production exists, and there are periodical economic crisis. These are actual situations in capitalist countries, of which Karl Marx has made scientific analysis. Judging from the private enterprises in the PRC, these contradictions also exist. According to investigations made of private enterprises in Beijing, the following problems have been uncovered: 1. Working hours for hired laborers are rather long in general, averaging 9.4 hours per day, and one-fourth of the employees work over 10 hours a day. 2. Tremendous difference in income between the employers and the employees. The employers themselves declare a monthly income of 700 yuan, and the employees 12 yuan, a 7.1 times difference. 3. Workers lack labor insurance. Eighty percent of the workers enjoy no medical benefits whatsoever. Besides, based on investigations made of several larger private enterprises in Yutian County, Hebei Province, the enterprise management systems are generally unsound and tax evasion is serious. Some of the owners blindly expand the scope of business, while others lead an extravagant life and are morally degenerate. Some of the comrades regard private economy as being perfect in every way. Is this consistent with the actual situation?

Second, many state enterprises in the PRC and some other countries are poorly operated, but it cannot be said that state enterprises definitely cannot run well. In fact, in China and other countries, there are also state enterprises which are operated rather well or very well. After making investigations in 13 countries and regions, including Austria, France, Brazil, India, Italy, and Sweden, World Bank officials wrote a book entitled, *The Decisive Factor for Success in Publicly Owned Enterprises*. It holds that there are also state enterprises whose operation results are better than those of private enterprises, such as the state-owned Reno Automobile Company in France.

According to their investigations, whether public-owned enterprises are well or poorly operated is determined by three major factors: 1. The degree of competition an enterprise faces. If it accepts competition, it runs well, otherwise it does not. 2. The extent of the enterprise's financial self-determination and responsibilities. If it assumes sole responsibility for its own profits or losses, it is well operated, otherwise it is not. 3. The degree to which the right to self-determination and the responsibility system in the enterprise's management are secured. If an enterprise can decide for its own in operation, it runs well, otherwise it does not. The author therefore holds that the ownership system is not a decisive factor in whether an enterprise is well or poorly operated. In other words, it is possible for state enterprises to run well.

Third, privatization cannot solve the problem of industrialization and modernization of China. To catch up with advanced countries, countries lagging behind generally rely on the strength of the state, including the development of the state-owned economy, to speed up

completion of industrialization and modernization. International experiences show: by relying on the state-owned economy, a country can concentrate its financial, material, and human resources to speed up the development of key departments and to accelerate economic growth. There are also cases where backward regions develop their economy by relying primarily on the private-owned economy, but there are often special reasons for their success. Some people cite our Taiwan as an example proving the superiority of private ownership, but the United States has played an important role in her economic growth, and Taiwan once practiced public-owned economy too. Which country can a large country like China rely on if it does not rely on itself to realize industrialization and modernization? The achievements in industrialization made in the 40 years since the founding of the Republic have been attained primarily by relying on the development of the socialist state-owned economy. Not only are they obvious to all, but also inevitable. If it does not rely on a state-owned economy, it is impossible for the PRC to solve the problems of funds, technology, trained staff, or other problems in the course of industrialization. We are now confronted with the task of modernizing industry and the national economy as a whole. Only by adhering to the leading position of the state-owned economy can we accomplish the task.

It should also be noticed that the state-owned economy started playing a leading role in the national economy since the founding of the Republic. It is the socialist society's economic base, the source of income and guarantee of livelihood for hundreds of millions of people, and is closely related to the people's interests. That state property is sacred and inviolable has already been laid down in the Constitution and is also the moral standard for the masses of the people. If privatization of state enterprises is now realized, it not only runs counter to the four basic principles, but will also seriously infringe upon the interests of hundreds of millions of people and affect their livelihood and welfare. It both runs counter to the Constitution and contradicts the morals of socialist society. Judging from the long working hours, low wages, bad working conditions, and oppression in some of the private enterprises, privatization of state enterprises will also make the workers and staff lose their status as masters of the country. What consequences will all these lead to? Will they be beneficial to the speedy development of the productive forces?

Fourth, even though privatization in some countries did play a favorable role in their economic growth, it cannot prove that realization of privatization in the PRC will surely promote her economic growth. The reasons are very simple. The actual situations vary with each country.

In pre-liberation days, old China also went in for private ownership, but several thousands years of private ownership did not industrialize China, nor did it play the role private ownership had played in other countries.

Some people say public-ownership gives rise to corruption. Such assertion needs analysis too. Since the founding of New China, the people's government has been renowned throughout the world for its honesty in performing official duties. It also has much to do with the realization of public ownership. Some countries practice private ownership, corruption and degeneration there are very serious. Privatization is now in effect in Japan and the United States. Are there not a lot of scandals about corruption and degeneration there?

If privatization is realized in state enterprises of the PRC, it may turn out to be bureaucrat capitalization. It is reported that an enterprise in a city broke itself up into shares to be owned by individuals. As a result, the enterprise was divided up by individuals. Some people became millionaires overnight, the difference in property between workers and staff is several hundred fold. Old China was ruled by bureaucrat-compradore capital. If bureaucrat capitalization is again put into effect by way of privatization, then China will return to a semi-feudal and semi-colonial society, and the state and nation will lead in a predicament beyond redemption.

It should be pointed out that there have been heated debates in theory and practice about socialization and privatization on a worldwide basis. Some stand for privatization, while others favor socialization. For a time, some people inside China presented only the former viewpoint, and did not, or seldom, present the latter. It must be pointed out that it is a prejudice, incomplete and unjustified. There is indeed a question of stand on this matter, i.e. a question of representing whose interests. Solution of the question of ownership must of course benefit the development of the productive forces. This is the criteria of the productive forces. However, those who stand for the criteria of productive forces do have the question of which stand to take and whose interests to represent. Some people's enthusiasm about privatization may result from the lack of knowledge about history and the theoretical development of the question. Nor do they understand the practical experiences of various countries. It is therefore extremely necessary and useful to seriously study and summarize the theory and practice of the question under the guidance of Marxism.

PROVINCIAL

Hunan Implements Price Reform Measures

91CJ06244 Changsha HUNAN RIBAO in Chinese
23 May 91 p 1

[Article by Li Shuguang (2621 1562 0342) "Implementing 10 Price Reform Measures"]

[Text] On 22 May, the Hunan Provincial Bureau of Price Control held its first news conference and announced 10

price control measures in an effort to stimulate enterprise development, particularly for large- and medium-sized state enterprises. The 10 measures are listed as follows:

When the province has definitely approved freed prices for some commercial commodities, enterprises must in fact be given the authority to set the prices for those commodities. Offices in charge of commodity pricing and enforcement must enforce the rules strictly, and goods must not be held back for any reason.

Goods whose prices have been freed because the goods are of small value, produced in small amounts or in scattered locations, or because they have been superseded by new stock must be subject to market regulation (the actual list of such commodities is to be issued by the province's Bureau of Price Control).

Enterprises' price-setting authority must be expanded to stimulate joint economic collaboration. The pricing of goods made from compatible components assembled within an enterprise bloc may be set within the enterprise.

Those commodities with freed prices that are not specially designated by the state cannot be subject to differential rates. For some consumer goods of a strong seasonal nature, seasonal price differences are allowed. Merchants and enterprises are allowed to cut prices on goods whose supply exceeds demand, sales are sluggish, or inventories are piled up.

Last-minute measures, such as using price to classify commodities to reduce the size of rate differentials, must be eliminated. In localities, regions, and cities that have taken the initiative to price commodities at different rates, action must be taken to clear the matter up at once, and to place the pricing authority in the hands of enterprise as soon as possible.

A new commodity pricing system that is really based on the principle of a good price for good quality must be completed and perfected. For example, for everyday, industrial consumer products that win gold and silver awards from the state and are cited by provincial authorities as being excellent products, enterprises need not apply for formal approval of the price. Enterprises may go ahead and set the product's marketing price within a set price range and report this to the province's Bureau of Price Control. Should the product not meet quality standards in subsequent reviews or sampling checks, the enterprise must immediately withdraw the product's quality and value-added designation. Otherwise, this act will be dealt with as an illegal act of price-fixing.

Market regulation will be adopted and comprehensive pricing measures will be implemented internally or externally, to narrow the difference between the cost of production materials and the finished product's price.

Illogical and illegal income and charges should be eliminated, and standards for some fees that are on the high

side should be lowered. Price-inspection offices at all levels must investigate and penalize all irregular fee collections, and consider this task to be an important mission that guarantees the legal rights and privileges of all enterprises.

A price-regulating funding system for a few important commodities that are relevant to state planning and the people's livelihood will be established, according to principles that do not curtail financial income, increase enterprises' burdens, or raise prices on goods produced.

In the future, the province's Bureau of Price Control will continue to hold news conferences on pricing information to answer questions on the pricing of special items and to provide enterprises with information on price-setting policies.

Economic Impact of Three Gorges Migration Plan

HA/507/50091 Hong Kong CHING CHI TAO PAO
(in Chinese No 27, 8 Jul 91 p 10)

["China Economic News" column: "Migration Operation Has Begun Evacuating Residents From Three Gorge Project Area"]

[Text] According to relevant sources, the project on the Three Chang Jiang Gorges, which has attracted worldwide attention, is scheduled to start. The prelude is to evacuate residents from the project area. Sichuan will take on 80 percent of the workload related to migration. For doing a proper job of evacuating the people residing around the proposed reservoir, a responsible member advanced a principle of "investing in the project in a comprehensive way, taking comprehensive measures, and exercising overall control." The specific contents are as follows:

- Integrating migration operations with economic development. The construction of the project on the Three Chang Jiang Gorges will transform this area from a poor one to a prosperous one. Besides retaining a percentage from the income from electricity charges, we can attain this goal by vigorously developing the economy, which is the most important approach.

- Integrating migration operations with urban construction. The construction of a new region must proceed under a unified plan and the infrastructural projects providing water and electricity and communication must be properly arranged. Residents must be moved to locations fixed in advance, and some leeway is desirable.

- Integrating migration operations with agricultural development including tackling small river basins, transforming moderate- and low-yield fields, and cultivating shelter forests. Funds for various projects should be combined for a unified use.

- Integrating migration operations with efforts to help economic development of poor areas. Funds for supporting poor areas can be added to relief funds to be provided in exchange for work in order to develop the economy and change slopes into terraced fields.
- Integrating agricultural development with industrial development. The area around the reservoir can launch industrial projects whenever conditions permit. Those factories which consume a lot of water (such as chemical factories and paper mills) can be built on the banks of the Chang Jiang.
- Integrating central efforts with those by local authorities, giving full play to the initiative of local governments.
- Integrating development with opening. Vigorous efforts should be made to attract foreign funds and funds in other localities for building factories here.

The responsible member stressed that launching the Three Chang Jiang Gorges project would provide an opportunity to develop the economy of the area around the project. In world history, large-scale prosperity will always follow a major national migration, as was the case with a mass exodus of Americans to the west.

FINANCE, BANKING

Bank of China's Savings Share Drops

HK2106022091 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 23 Jun 91 p 1

[By staff reporter Qu Yingpu]

[Text] Hit by fiercer competition, the Bank of China (BOC) has witnessed a smaller growth in personal foreign-exchange deposits this year.

The bank is expecting a total of \$1 billion in new private savings in foreign currencies over the 12 months, down from the buoyant growth rate of roughly \$100 million a month in 1990, a BOC official told BUSINESS WEEKLY.

During the first four months of the year, BOC saw its reservoir of such savings grow by \$360 million to top \$1.6 billion, which means the bank still holds the lion's share of the country's total of more than \$5 billion, said Wang Shanhong, who is in charge of personal foreign exchange deposits.

Wang attributed the slow-down to the increased competition BOC has to face from other banks. BOC used to monopolize individual foreign exchange deposits, but nine other banks, including a Sino-foreign joint venture bank, have joined the competition in the last couple of years.

Some of the competitors, like the Industrial and Commercial Bank of China, which boasts \$1.1 billion of

personal foreign exchange deposits, have overtaken BOC in the number of branches they have.

BOC has just over 1,000 in the country, mostly in big cities.

These competing banks also provided better interest rates to customers, after their fixed-term deposit savings had matured, Wang said.

Fortunately, he said, all the banks have now adopted the same terms for these depositors, from the beginning of this month, as required by the central government, which means BOC is now competing on equal terms with the others.

Wang said the Gulf War earlier this year also contributed to the slow down in personal foreign exchange deposits in his bank.

"The income earned by Chinese labourers working on overseas engineering projects went down because of the Gulf War," he said, which in turn affected their deposits at BOC.

Besides the laborers, students studying abroad, overseas Chinese and mainlanders' relatives in Taiwan, Hong Kong and Macao are the major sources of foreign money savings in China.

Deposits by foreigners in China only accounted for a tiny share of the total, Wang said.

Of the \$380 million new savings during the first four months of this year, Wang said, U.S. dollars took a big share compared to other foreign currencies that the bank receives in deposits—pounds sterling, Hong Kong dollars, Japanese yen, German Deutschmarks and French francs.

U.S. dollar savings accounted for 57.6 percent of BOC's total individual foreign exchange deposits at the end of last year.

Wang urged the central government to make the best use of the \$5 billion personal deposits at a time when the international market is short of capital resources as a result of the Middle East crisis, the economic difficulties in the East European countries and the gloomy economic situation in the United States and Britain.

Asian Development Bank Approves Technical Grant

OW507134091 Beijing XINHUA in English
1029 GMT 5 Jul 91

[Text] Manila, July 5 (XINHUA)—The Asian Development Bank (ADB) has approved a technical assistance grant of 600,000 U.S. dollars to China for the development of securities market, the Manila-based bank announced here today.

One of the objectives of the grant is to help People's Bank of China formulate national legislation to govern the issuance and trading of securities in the country, ADB said.

More Foreign Bankers Attracted to Shanghai

CHINA/14/200/ Beijing XINHUA in English
1129 GMT 6 Jul 91

[Text] Shanghai, July 6 (XINHUA)—The application of the Bank of America to set up a branch in Shanghai has been approved, making it the sixth major world bank to operate in China's financial center.

According to official sources, since the People's Bank of China (PBOC) issued a set of regulations on the control of foreign-funded financial institutions and joint ventures in Shanghai last September, at least 15 foreign banks have applied to establish branches in Shanghai.

The PBOC first approved the applications of six major foreign banks from the United States, Japan and France. These banks have close financial and business links with Shanghai, ranging from introduction of foreign funds and clients, and training of personnel to consultancy services.

Now there are altogether 10 branch banks funded by foreign firms or overseas Chinese. The number is next only to that of Shenzhen in South China.

The newly established Shanghai International Finance Company Ltd and the Shanghai Associated Financial Co. Ltd are both joint-venture firms.

INDUSTRY

Gross Industrial Output Value From January to June

HK/1107152291 Beijing CEI Database in English
11 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's total industrial output value in January-June 1991, released by China's State Statistical Bureau.

Item	Total Output (in 100 million yuan)	
	January-June 1991	January-June 1990
Total	11,280.3	9,254.4
Export products	1,208.7	931.7
Light industries	5,907.8	4,444.1
Heavy industries	5,372.5	4,810.3
State-owned	7,297.4	6,197.2
Collectively-owned	3,208.8	2,607.1
Others	988.1	450.1

Note: The industrial output value is measured in 1987's constant price.

CONSTRUCTION

Housing Reform in Chengdu

HK/906/4439/ Beijing LIADWANG in Chinese No 20,
20 May 91 pp 21-22

[Article by Li Nanling (2621 0580 3781), Cheng Jian (2052 1698), Chen Hua (7113 3478): "Additional Remarks on Chengdu's Housing Reform in the Year of the Sheep"]

[Text] Housing reform, which receded from public attention for some time, has once again become a hot topic in Chengdu in the Year of the Sheep. A "good opportunity for housing reform" has been widely talked about. However, past practice indicates to us that in order to push forward this reform, which requires everybody to "go to some expense," it is imperative to arouse the enthusiasm and support of the masses as the first thing first.

A street separates the office complex of Chengdu Railway Bureau from its subordinate Chengdu Railway Subbureau. When housing reform started a few years ago, the bureau on this side of the street put forward a housing reform proposal highlighting the selling of housing. Most of the financially competent staff members vied with each other in the purchase. The subbureau on the other side of the street could not carry out its housing reform because the residential title-deeds were not ready at the moment. Watching the goings-on across the street, the subbureau staff stamped their feet in anxiety and kept blaming their leadership for being dilatory in handling this matter and causing them to suffer losses. Two years have passed. The buyers of housing on this side of the street now have something to complain about when they realize that the housing reform has failed to spread and the majority of the people are still living carefree in low-rent public housing. They say: "What was the point of us trying to be in the swim?" Those on the other side of the street now feel relieved: "It seems to be no good trying to be the first to do anything."

The housing reform rush in Chengdu, enjoying considerable fame two years ago, is still vivid in the memory of many. But today's reality is: Though the housing reform has not been held up, the housing reform experimental units are having a difficult time in making progress. Some people think they have got the worst of it and demand a "refund of money paid for housing." Most of the units which have not started the housing reform and their staff members are generally showing a wait-and-see attitude.

Now that the topic of housing reform has come up again, reporters interviewed a number of units in Chengdu City. The interviewees generally maintained that it is imperative to arouse the enthusiasm and support of the masses and find the opportune time to push forward housing reform.

Many people of insight think that in view of the entire society's understanding of the necessity and urgency of housing reform, the time for it is now ripening. Naturally, however, when examined in the context of the macroeconomic environment today, carrying out housing reform has yet to surmount many difficulties. During the period of improvement and rectification, raising rents and selling public housing does contribute to a certain extent to the adjustment of consumption structure, recovery of paper money, and control of inflation, and housing reform is in line with the general principle of improvement and rectification. But on the other hand, though the national economy has risen from rock bottom, it has not completely freed itself from the predicament. Both the economic strength of enterprises and nonprofit institutions and the mentality and financial capacity of workers and staff members are relatively fragile. They are all worried about housing reform which requires everybody to "go to some expense." Units such as Chengdu No. 1 Radio Factory submitted their housing reform proposals for approval as early as 1988, but they were not implemented as the subsidies for the raised rents and the issue of housing subsidy coupons would be too much of a burden on the enterprises. Nowadays, they are speaking with even less reservation. "Housing reform had nothing to show even when the enterprise was in its better days and the workers were given high bonuses. What is the point in mentioning housing reform now?" Furthermore, housing reform in the past two years was "half-baked." The idea that "whoever conducts the reform first will come to grief" has now become a general mood in units where housing reform has been carried out, adding to the difficulty of restarting the reform. In view of this, some theorists, researchers, and comrades engaged in the concrete implementation of housing reform suggest fully recognizing the difficulty of it and energetically guarding against impatience for success.

Some housing reform experimental units also propose that in formulating housing reform proposals in the future, it is necessary to make a policy to protect and encourage the units and localities where the reform has been conducted ahead of others. When housing reform first started, many people did not carefully calculate how much they could get from the reform and, instead, took part in it on the basis of a simple enthusiastic feeling and a simplistic interpretation of "whoever participates in the reform first benefits first." Their act played an important role in the formative process of housing reform. It is not right to let down these people who took the lead in responding to housing reform.

"For housing reform to take effect, leaders must appear on-stage." This is a thought-provoking remark made by an "old housing reform expert" in Chengdu. According to a survey among the units where housing reform had been conducted, people and units who had to spend more money as a result of the reform were mostly leading cadres and nonprofit units. In enterprises, especially large and medium backbone enterprises, there are a

relatively large number of households who had surplus housing subsidy coupons after rents were raised and housing subsidy coupons issued, because the housing space of the workers is generally quite small. This shows that on questions of housing which the masses are generally concerned with and make numerous comments on, leading cadres have a decisive influence on housing reform when they are in the dual capacity of decision-makers and participants in reform. When housing reform first started in Chengdu in 1988, many units were hesitating because they wanted to find out how leading organs and leading cadres were going to act. It turned out that the city government took the lead to unfold housing reform and its leaders were the first to purchase housing, causing a strong reaction from all over the city. This was a "reassuring pill" for the public and set off a "housing reform rush in Chengdu." Now when the topic of housing reform is brought up again, the eyes of the general public are again fixed on residential blocks for cadres, which are getting more and more classy. "Will they take part in housing reform?" "Do they get the same policy as we do?" Such doubts are popular among the masses. They are watching. They are waiting.

An important cause, which has been neglected, of today's sluggishness in the market is that the shortage of housing has limited consumption. Probably only when housing has entered the market as the biggest consumer item can the market in China become a mature one with a rational consumption structure. In this sense, solving housing is the choice that has to be made in housing reform.

As in other regions, the initial objective of housing reform in Chengdu is to change the low-rent policy so as to check the constantly expanding demand on housing. According to statistics, Chengdu invests over 400 million yuan in housing each year but only 12 million-yuan annual rent is collected, representing three percent of expenditures. Behind the low rents and supply system is the unbearable burden on the state. Therefore, raising rents has become the most direct choice of housing reform. However, it is facing many difficulties. The office affairs administration bureau of Chengdu has 120,000 square meters of housing under their management. Before housing reform, 110,000 yuan rent was collected each year. After the rents were raised, only 120,000 yuan could be collected when the subsidies given out were deducted. For enterprises whose workers and staff members are mostly hemmed in by relatively small housing spaces, after the rents were raised and subsidies given out, many of them had money left from the subsidies after paying the rents, which means it was still the enterprises that were truly spending more money. According to an estimate by the Chengdu Railway Bureau, if the method of raising rents and distributing subsidies is adopted, they will have to pay extra 1.85 million yuan in subsidies. Even if the method of issuing subsidy coupons is adopted, these coupons, worth 1.85 million yuan, held in the hands of the workers, are still an unbearable burden for the enterprise.

In the course of housing reform, Chengdu gradually came to the realization that the purpose of housing reform is to promote construction of housing, and that to solve this problem it is necessary to seek the joint efforts of the state, collectives, and individuals. Thereupon, "housing sale" was chosen as a point of breakthrough in housing reform in Chengdu. Since 1988, housing reform has been conducted in 190 government organs, enterprises, and nonprofit institutions in Chengdu. The total area of housing under the reform is 2.98 million square meters, 60 percent of which has been sold as part of the reform. Over 73 million yuan was recovered in the first round, and a housing fund, the first in China, was established.

There are many controversies over the topic of housing sale. They focus on two points. Does housing sale impair the interests of the state? Can people afford to buy them? When housing reform just started, some people found it not worthwhile to buy housing. They said, "We waited 20 years before we had a proper place to live, and now we are told to buy a place with our own money." Some others, feeling aggrieved, said "How much can we get from the factory? We should borrow money from the manager and eat at his home if we want to buy a house." This was what people felt when the topic of housing sale was first brought up.

After the housing reform was well under way, a "housing purchase rush" appeared in Chengdu, as units lined up waiting for banks to collect payments and individuals lined up waiting for their units to collect payments. What prompted the change in people's attitude?

According to our investigation, the general mentality of housing purchasers is 1. Buying housing for living. "Living and working in peace and contentment" is what most people are after. 2. Buying housing for counteracting inflation. Many people believe that rents are bound to rise in the future, so buying a place will save the expenditures for this purpose. 3. Buying housing as property for descendants. This is because as the population grows, housing space will be an ever-intensifying problem. 4. The preferential prices of the housing on sale are attractive to workers whose main income is from wages. They describe housing prices as "a peach that you cannot reach standing, but can pick with a little jump."

Through careful and macroscopic calculations, people in Chengdu have become aware that housing is the most expensive consumption, such an understanding is gradually manifesting itself in their consumer acts. The "survey of destinations of funds and opinions of depositors" conducted by the Chengdu City Industrial and Commercial Bank shows that in 1988, when the housing reform started, about 20 percent of the depositors were putting money aside for housing purchase.

The change in consumer mentality is the precondition of a change in the consumption structure. Similarly, the strengthening of the masses' bearing capacity for the reform also affects the process of housing reform in the

next step. From this perspective, a leading comrade of Chengdu said, "The first-step housing reform made a breach in the long-established concept of housing under the low-wage system and welfare system." The voice of the masses said, "Buying a house is better than renting one; an early reform is better than a late one." This understanding is the "capital" we have earned so far for the next step of the reform.

Housing sale as a point of breakthrough in starting the housing reform was well accepted by almost every participating unit in the reform. The state-owned Jingjiang Electrical Machinery Plant, with over 7,000 workers and staff members, started off a housing reform "characterized by housing sale." In the whole plant, 1,457 flats have been sold, representing 71 percent of the total area of flats in this plant. After the housing reform, the plant had a housing fund of 5.38 million yuan. This plant not only solved the thorny problem with distributing housing spaces through economic means, but, more importantly, also increased investment in and quickened the pace of housing construction with this fund. Since the housing reform, the plant has built six apartment blocks, two of which have been put to use. Last year, over 2 million yuan from the housing fund was invested in the renovation of old blocks and that of 100 flats will be completed in the first quarter of this year.

Housing sale at preferential prices has given rise to another point of view. The scope of benefit for the masses exceeds that for the state, causing losses to the latter. How shall we work this out?

Since the founding of the People's Republic 41 years ago, the state has invested a total of 320 billion yuan in building 2.5 billion square meters of urban public housing. Every year, it spends about 30 billion yuan on housing construction. In repairing existing public housing, the state has to put in all the rent collected each year, with an additional 5 billion yuan on top. Therefore, because of the low rents and free supply system, the state throws about 35 billion yuan into a bottomless "black hole" each year, but even this has failed to relieve the shortage of housing.

After the method of housing sale was adopted in Chengdu, the 30 percent down payments amounted to 73 million yuan and a total of 250 million yuan is to be collected when full payments are made. Zeng Chaoshu (2582 2600 6615), former leader of Chengdu City's housing reform leading group, made the following comment on this, "In the past, workers spent a very small portion of their pay on housing and the state installed a welfare system to provide free housing. Now a certain amount of money has been recovered by selling housing to the residents. This seems worthwhile."

What one should be more aware of is the fact that the public investment in housing has brought about more space for the growth of 50-odd related professions, such as that of decoration and those producing and dealing in building materials, hardware, and plastics. During our

visits, we saw that most housing purchasers had spent thousands of yuan on interior decoration, furniture, and other articles. The gradual transfer of focus in consumption from spending money on a few major electrical appliances to the purchase of housing is a new phenomenon of consumption that has emerged in the wake of housing reform in Chengdu.

LABOR

Pension Crisis Looming by End of Century

91CEU5784 Beijing LIAOWANG [OUTLOOK]
in Chinese No 15, 15 Apr 91 pp 14-16

[Article by He Xiaolin (6320 2556 2651): "Old-Age Security—A Grim Topic in China's Future"]

[Text] Of China's 1.1 billion population, almost 100 million people are over 60 years of age, and by the end of this century this figure will have gone up to 130 million. With the increasing number of aged, old-age security is becoming an important social problem.

As an Emergency Measure: Advantages and Disadvantages of an Overall Centrally Administered Old-Age Security System

At present, there are as many as 20 million retired staff and workers in China. In another 10 years, this number will grow to 40 million. In 1989 the total amount of pensions paid in China amounted to 37.5 billion yuan, which was close to one-seventh of the country's total revenue during that year.

In China, pensions to aged staff and workers is mainly being paid by the unit of their employment; enterprises treated these payments as part of their costs, and party and government components paid them as part of their operating expenses. As a result of this method of care for the aged, namely having "each unit care itself for everyone in it when he/she reaches old age," every unit (enterprises and party-government organs) are burdened with a heavy financial load when the number of their retirees reaches a certain magnitude, a load that will seriously hamper their own development. According to statistics of the Labor Affairs Bureau of Sichuan Province, there are a considerable number of enterprises in the province whose retired staff and workers amount to one-third of their entire personnel, in some cases the ratio is as high as 1:1, and it is in some even at an inverse ratio. Obviously, the current social security system with its method of "each unit care itself for everyone in it when he/she reaches old age" does not adequately meet the social need.

In 1984 the city of Zigong in Sichuan Province was first in the country to try out an "overall centrally administered pension scheme for enterprise staff and workers," which was later gradually introduced to certain other districts throughout the province and the country. As we have been informed, there are now throughout the

country over 1,000 counties and cities that practice overall social centrally administered distribution of pensions, a method that affects a total of about 60 million people, of whom over 30 million are staff and workers still on their jobs, and over 9 million in retirement.

The overall centrally administered pension scheme basically works as follows. Every enterprise pays a certain ratio of its total payroll into a pension fund, the ratio to be comprehensively fixed by the departments in charge of labor affairs, and the funds will then be paid back to the enterprises as and when actually needed by the enterprises. It is, in one phrase, "centrally received and centrally disbursed money, wealth from some places to sustain poverty at other places, abundance here to sustain deficiency there." As informed by the Bureau for Social Centrally Administered Insurance of the Labor Affairs Department, Sichuan Province, make-up payments from the centrally administered pension fund to enterprises with many retirees and to financially overburdened enterprises throughout the province amounted to over 60 million yuan in 1988, to over 70 million yuan in 1989, and reached to over 97 million yuan during the first 10 months of 1990. This method lightened the pressure on enterprises with many retirees and with a large pension burden and played a beneficial role in ensuring social stability, but it has also defects which are difficult to overcome.

According to the rules of the overall centrally administered pension scheme, levying contributions to the overall pension fund follows the principle of "fixing the amount to be levied according to what will have to be disbursed, while still providing for a small margin of surplus." The method is to first compute the pensions that the scheme will entail, and then again to withdraw a proportionate amount of the total payroll amount, collect it together and have it ready for use. Some enterprises, working under particular difficulties, are not able from the first month of participating in the pension scheme to pay their due contribution to the pension fund, and must, on the contrary, obtain money from outside sources to solve their own problems. As a result, a considerable portion of the enterprises must pay additional amounts to make up for the funds of the defaulting enterprises. Thus, the applause of enterprises benefiting from the scheme is mixed with the loud complaints of those enterprises that are burdened with the task of making good for the deficiencies of others. According to figures provided by the Labor Affairs Department of Sichuan Province: in 1989, among the enterprises participating in the overall pension scheme, 5,000 had taken in money from outside sources to benefit 404,000 retired staff and workers, which were 30.4 percent of the total retiring staff and workers under the overall pension scheme. In other words, over 70 million yuan that these enterprises received was completely derived from enterprises with few retirees and a comparatively youthful personnel.

According to the original intention of the planners, units that for the time being do not yet benefit will benefit

from the overall pension scheme in another 10 or 20 years when the receipts of their pension premiums will no more cover the pensions they have to pay out. However, a very real problem is that money once spent cannot be recovered. In Sichuan Province, 870 million yuan of overall pension contributions were received in 1988, and 757 million yuan were paid out. In 1989, 1,130 million yuan were received, and 980 million yuan paid out. For 1990, it is estimated that 1,000 million yuan will be received, but that an estimated more than 1,100 million yuan will have to be paid out, because the government has decided to raise the pensions of retiring staff and workers. In this way, the surplus of past years will be completely spent. This leads to a serious problem. The pension fund to which enterprises with personnel of younger age groups have contributed is in fact something like a "reserve fund," but as a result will be completely eaten up in advance of when it will be needed. Furthermore, judging by the present conditions, the situation of receipts being insufficient to cover disbursements will not fundamentally change. In the future, the additional payments that they had made and meant as a "reserve" will unavoidably be used to make up for the deficiencies of defaulting enterprises. The result of this kind of "eating up next year's food" will cause indebtedness to grow larger, similar to a snowball on a downhill grade, and the longer it lasts the heavier the burden on enterprises with personnel of younger age groups.

As an emergency measure, the overall centrally administered security scheme has played a certain positive role. However, it has also sown the seed for worries that are thus bequeathed to the next generation. Because the fundamental thought in the overall centrally administered pension scheme is still to let the state (enterprises) bear full responsibility for caring for the aged, anything like "tearing down the east wall to repair the west wall" will not fundamentally solve the problem.

One Aspect Not to be Overlooked: The Countryside and the Collective Enterprises

In China's countryside and urban collective-owned enterprises the social security problem is something that is most urgently demanding a resolution. Among the almost 100 million aged persons throughout China, 71 million are in the countryside. Among the more than 20 million retired staff and workers in the cities, about one-third are from collective-owned enterprises, with another large group consisting of casual workers.

Elderly in the countryside are presently cared for in two ways. One is to have them cared for by their families, and one is to send them to homes for the aged.

As family planning is practiced in the countryside, it may happen after a certain number of years that one couple will have to care for several aged persons. However, there is a great difference between countryside and the cities in that retirees in the cities have more or less steady cash incomes, which to a certain extent lightens their reliance on their children and grandchildren. When aged

people in the countryside lose their ability to work, they will completely rely on their families to care for them. Since China has a large population but is short of land, the material basis for peasants to make a living is fragile, and their ability to support others is correspondingly weak. According to statistics of relevant departments, the average per capita arable land throughout the country is presently somewhat over 2 mu, and that leaves a considerable number of young people in the prime of life with nothing to do. In 1990, surplus rural manpower throughout China reached 150 million, and will be over 200 million by the end of the century. After a certain number of years, with the rapid growth of the population, a considerable number of rural families, with several generations living under one roof, are bound to face unprecedented economic difficulties.

Under these circumstances, the traditional methods of building homes for the aged and paying subsidies to civil administrations will hardly be able to solve the fundamental problem. One district, Yongtai District in Zhongjiang County, Sichuan Province, once computed as follows: The district has now 354 aged persons to be fully cared for. In 1988 the district built a home for the aged which could accommodate only 40 persons. At present, 10,545 families in the district have received one-child family certificates. After 20 years the children of these families will—just the same as families in the cities—be faced with the difficulty of having to care for several old people. If one half of the old people were to be sent to homes for the aged, the district would have to invest over 14 million yuan to be able to resolve the problem in this way.

Economists are convinced that caring for the aged in the rural districts is a strategic problem that has a bearing on the country's prosperity and social stability, and that it is unrealistic to rely on state finance to solve the problem of caring for the aged in the rural areas. Experts believe that the villages should first work out methods to solve the problem of caring for aged village cadres and staff and workers of township enterprises. This group of people is not too numerous. As far as Sichuan is concerned, the number of persons recruited as district and township cadres is about 300,000 and the number of village cadres about 250,000. There are about 3 million staff and workers in relatively permanent township enterprises. They have all relatively steady salary and wage incomes; this could be a breakthrough point for the solution of the problem of caring for the aged in the countryside. Following the economic progress in the rural areas, peasant incomes have gradually risen, and this would allow finding further ways of caring for the large number of those aged in the rural areas who have no steady income.

Caring for the aged staff and workers from enterprises owned by township communes is also an acute problem. As informed by departments concerned, there are about 20 million staff and workers in collective-owned enterprises throughout the country. Their enterprises are

generally economically weak and financially poor establishments, working inefficiently and having little by way of accumulations. Solution of the problem of caring for the aged mainly relies on the enterprises themselves.

Settlement of retiring staff and workers from collective-owned enterprises is presently carried out, basically, in two ways. One is to pay them a one-time settlement allowance of several hundred yuan and thereby cut off their relation with the enterprise; another way is to pay them every month a small living allowance, depending on the capability of the enterprise, and without regard for the length of service, but this is generally much lower than the level of such payments at state-run enterprises. Obviously, these methods are highly inappropriate, and will be resented as unfair by a considerable proportion of the aged.

A Realization From the Fact That Single-Child Allowances Must Provide Care for Two Elderly: Focus Attention on Insurance Companies

Since 1990, the Sichuan Insurance Company is propagating throughout the province a kind of insurance which the company calls "single-child insurance and insurance for parents of single-child families," where the parents of single-child families must merely pay the insurance company the single-child allowance of 5 yuan per month, which the state pays from birth to age 14, and this will then be a safety insurance for the child itself up to age 15. After age 15, it will be automatically converted into an old-age insurance for the parents. When father or mother of the single-child reaches his or her 60th year of age, he or she will then generally receive a pension of somewhat over 130 yuan per month.

The insurance company presents this scheme as a new idea to solve the problem of caring for the aged. After the state will have somewhat readjusted some of its economic policies, this method could become an effective lever in the establishment of an old-age insurance system.

During the 10 years of reform, the state has expended much energy on raising the living standards of the people, but that was done by raising wages and increasing subsidies. A simple analysis of staff and worker income shows that it is composed, apart from the basic salary or wage, of fuel allowance, nonstaple food allowance, employment post allowance, mess hall allowance, single-child allowance, seniority allowance, bonuses, floating wages, and several local allowances of one name or another. Besides, all these allowances are affirmed in official documents and derived from state policy. Seen as a means of raising the living standards of the people, the state has indeed given much attention to the matter, but in historical perspective, we have to admit, that we have considered only immediate benefits and neglected the long-range benefits.

If we could convert certain of these allowances into a "fund for future security," just as the Sichuan Insurance Company does by setting up an old-age insurance for

parents of single-child families, the situation would be quite different. For instance, since October of 1989, the state decided to raise salaries and wages, and for a considerable proportion of staff and workers the raise was more than 15 yuan per month. According to computations by departments concerned, if the method of operation were changed and if this amount of money would have been given to insurance companies as old-age insurance fund, with property rights and benefits to revert to the staff and workers, then the problem of old-age care for staff and workers below the age of 40 could have been solved to one-half.

Along this line of thinking it should be possible to find a breakthrough point in the rural areas. The district and township cadres that have been recruited, village cadres that receive allowances, and peasants that earn wages in township enterprises, all have a relatively steady income, therefore have the ability to pay insurance premiums of a certain amount. One could first institute insurance for these people in advance of other groups. At the same time one could also readjust certain economic policies to help them solve the problem of old-age security.

The provincial government of Sichuan has initiated certain trials in this respect. To dispel the anxiety of the 6 million rural families with single-child certificates about their future, the provincial government has issued specific regulations on the financial sources for the operation of this insurance:

- 1) Profits formerly withheld by the collective or turned over to higher authority by township enterprises as well as single-child health allowances withheld in "industry supplement agriculture" funds, may be used for insurance purposes.
- 2) In those localities where "health fields" are allotted to single-child sons or daughters, the health dues levied from the yield of the "health fields" can pay for insurance.
- 3) In impoverished regions where the per capita acreage is small, where there is no land to be allotted as "health fields," and also no collective income to serve as subsidy, while peasant income is also very low, the fines imposed for violating birth restrictions of the family planning rules may be paid in as insurance premium.

Specialists believe that although many unexpected difficulties may still arise in the operation of the insurance company's scheme, the trend of ideas opens up broad prospects for a solution of the social security problem. It should stimulate initiative in every quarter, as we must not merely cast our eyes solely on the money bags of the state. Party and government must bring their authority in policy matters into play; policy is also money.

Those for Whom Security Is To Be Provided Must Exert Efforts for Their Own Security: An Abundance of New Ideas in the "Zigong City Scheme"

Zigong City, which in 1984 tried out before everybody else in the country the "overall centrally administered security" scheme, on reviewing its experiences, has again put forward a new method of "combining accumulations with overall centrally administered insurance." Experts in the Sichuan Insurance Company believe that this method can deal more effectively with the relationship between acute difficulties and long-range contradictions, and that it can appropriately be applied to collective enterprises and industrial units, as well as to enterprises owned by the whole people. It can also be applied in the case of a considerable portion of rural cadres and township enterprise staff and workers with steady incomes.

The special characteristics of the Zigong City scheme are: It separates old-age pensions into basic and supplementary old-age pension. Basic old-age pension shall adopt the pattern of the overall centrally administered insurance scheme, taking in as much as is being disbursed, providing only a small surplus. Supplementary old-age pension should be set up in the form of accumulations, the target for the accumulation must be determined according to the economic conditions of the enterprise concerned. If available accumulations are high, future old-age pensions will be high, and otherwise pensions will be less. Providing the pension fund shall be the joint responsibility of state, collectives, and individuals.

In the actual operation of the scheme, staff and workers who have already retired and those that will retire in the next five years shall be "bundled" together, and for them the overall centrally administered pension scheme shall be carried out, the purpose being to alleviate the acute difficulties of the enterprises. For staff and workers that shall retire after the five-year limit, the "available accumulation" method shall be applied. Going forward in this dual-track way will enable us to gradually accomplish the transition.

This scheme was worked out by the old-age insurance office of Zigong City on the basis of over 3 million basic test data. To test whether the scheme is feasible, Zigong City selected a collective-owned enterprise in great economic difficulties to be made part of the scheme, and the simulation arrived at in the operation showed most gratifying results.

Included in the computations were 1,265 enterprises, presently employing 87,863 staff and workers, and having 18,306 retirees. It was estimated that 4,578 persons will retire in the next five years. Thus, retirees and staff and workers to retire within the next five years—all persons for whom the overall centrally administered insurance scheme will apply—made up a total of altogether 22,884 persons. Those for whom the accumulation pattern will apply made up a total of 83,285 persons.

According to this computation, after the over-age staff and workers will have retired, the average age of the 83,285 remaining on their jobs will be 32 years. In this

way, male and female staff and workers will have 28 and 18 years, respectively, to work up from the start at a comparatively low level of accumulation to achieve a level which they would require as their old-age retirement pension.

The Zigong scheme assumes as basic a retirement pension of around 103 yuan per month for every retiree. In that case, 13 yuan will have to be paid every month as insurance premium. Of this sum, the state and the enterprises will be responsible for 10 yuan and the individual staff or worker for 3 yuan. The state will bear its share in the form of "withholdings before taxes, payment concealed as tax reductions," and not at all by an additional allotment of funds from the treasury. According to a revised calculation, the portion borne by the state and the enterprises will amount to 8.9 percent of the staff and workers' aggregate payroll.

Of the 22,884 persons already retired or to retire within five years, for whom the overall centrally administered pension scheme shall apply, each will receive a monthly living allowance, received according to the current method of the overall security scheme, and fully borne by the state and enterprises. Calculating its value at the peak period of staff and worker retirements, the amount of the overall centrally administered retirement fund will be 9.57 percent of the aggregate payroll.

In this manner, the overall centrally administered portion and the accumulation portion together will amount to 18.47 of the aggregate payroll at the peak period, approximately the same as the fund presently levied everywhere throughout the country in carrying out overall centrally administered security. The important thing is that the number of staff and workers participating in the overall centrally administered insurance will decline year after year because of natural deaths, and the ratio of this overall centrally administered insurance will correspondingly decline. After 15 years it will only be 6 percent, and at that time, the accumulation pension portion, financed by the individuals, will begin to play an effective role. The retirement pensions to be borne by the state and the enterprises will on the whole not exceed 12 percent of the total payroll. Compared with the overall centrally administered insurance now being practiced in various localities, the portion to be borne by the state and the enterprises will then on the average be less by almost 10 percent.

Implementation of the Zigong plan will not impose additional burdens on state finance. The state may even reap considerable benefits. Implementation of the Zigong plan will lead to the accumulation of some funds, and again taking over 1,200 enterprises as example, the accumulation of insurance funds in 5 years would be over 50 million yuan. In 20 years, the accumulation could be 300 to 500 million yuan. This, no doubt, is a huge construction fund.

Problems That Urgently Await Solutions: Propaganda, Legislation, Value Accretion, and Others

It is imperative to institute a social old-age security system for which "the state should supplement some, the enterprises pay some, and the individuals chip in some." The experts believe that there is still some urgent work to be done to achieve this objective, namely:

We must change the mentality of citizens, the belief that we are to rely on the state in every case of "birth, old-age, and sickness." We must therefore launch a long-lasting propaganda on the theme "each person to care himself/herself for his/her own future security."

We must as soon as possible resolve the question of who is to set up the old-age insurance system.

Some experts in the field of economic theory believe that we must implement the principle of separation of government and enterprises in the area of old-age insurance. They propose to organize a joint committee for the administration of social old-age insurance, to be participated in by relevant departments of the government and by the Federation of Trade Unions, to exercise leadership through supervision, investigation, and policy-decisions. Specific business operations shall be a responsibility of the insurance company. It will be possible in this way to effectively economize in manpower, in material resources, as it will also be beneficial for the secure handling, protection, and value accretion of funds.

The question of value accretion of old-age insurance funds must be urgently resolved. Almost every department that I interviewed brought up the problem of value accretion of insurance funds. At present, whether in the overall centrally administered security scheme of the labor affairs departments or in the life insurance operations of the insurance companies, funds that are received are placed in bank deposits, and the institutions rely on interests to increase the value of the funds. As informed by the Labor Affairs Department of Sichuan Province, the surplus funds of the overall centrally administered pension funds deposited in banks earn in 45 percent of the cases interest at the rate of current bank deposits. If the inflationary commodity price rises are duly taken into consideration in the calculation, every 100 yuan of an overall centrally administered pension fund depreciates by 12.29 yuan every year. The higher or lower rate of value accretion of the funds has a direct effect on the safety coefficient of the old-age security. The higher the rate of value accretion, the more will be available for recipients from the old-age fund, and less will be available in the opposite case. After the old-age security system will have been perfectly set up, there will be more and more accumulations of funds, and it will become an extremely important question how to usefully employ these funds.

Experts in this field propose that the state shall institute some special policies to guide the use of funds in the old-age security system, letting the funds appreciate by investments in shares, in industrial developments, etc. For instance, the state should designate certain districts in which the insurance departments shall be allowed to

use funds by investing in the construction of high-grade toll roads, to earn a comparatively steady economic return.

Formulation of necessary rules and regulations. Comrades concerned with these matters are of the opinion that the great majority of staff and workers will find it acceptable to pay monthly 5 percent of their income as old-age insurance premium. There are many reasons for the fact that the present psychological tolerance of the masses is lower than their economic tolerance, and one important reason is their doubts and distrust of promises to pay them something in 10 or 20 years hence. Guaranteeing this by law would dispel the anxiety felt by the masses, and this would in fact be beneficial for the establishment of a social security system. Furthermore, the leadership in some enterprises is presently to a serious extent only eager for quick successes and instant benefits, and unwilling to provide an old-age insurance fund for their staff and workers. A law would make enterprise leaders clearly aware of their legal obligation.

Moreover, there are still many foreign-invested enterprises and privately operated enterprises that preferably employ young and strong staff and workers. We must prevent entrepreneurs of such enterprises from just walking away one day with all the riches they have acquired, while leaving it to the state to figure out how to solve the old-age problem of their staff and workers. Based on the above-mentioned reasons, experts have proposed that the state should as soon as possible enact appropriate rules and regulations concerning security for the elderly.

Liaoning Implements Labor Reform Experiment

91CE0624B Beijing JINGJI RIBAO in Chinese
28 May 91 p 1

[Article by Pang Tingfu (1690 1694 4395): "Liaoning Implements an Experiment to Comprehensively Reform the Labor System"]

[Text] Recently a series of measures focused mainly on reforming the enterprise wage system was initiated among 21 large- and medium-sized enterprises in Liaoning Province. This was done to develop wages' leverage effect in activating and supporting those systems related to labor utilization, insurance, occupational training, etc.

The most outstanding feature in the provincial labor bureau's efforts to actually implement such large reform is its strong emphasis on comprehensive coordination and total involvement. This centers around reform of the wage system, is based on reform of the labor utilization and the training and testing systems, and it is assured by reform of the social insurance system. This is all done in an atmosphere of mutual promotion and cooperative development. This approach avoids the negative effects of emphasizing any one system, and actually attains the

goal of increasing labor productivity. Where the coordination falls short of the standards, no reform of the wage system may be implemented.

The important feature of coordinated reform, as far as wages are concerned, is the way the present single-grade wage system can be changed into a job-skill wage system that coordinates and incorporates into one package workers' skills, responsibilities, strengths, and contributions. This type of wage system consists of four components: job pay, skill pay, efficiency pay, and special pay. The course of reform must ensure that an essential worker in the production line, particularly one in a difficult job, can see an increase in his wages. At the same time, a method that both fairly calculates wage remuneration for the worker and economic benefits for the enterprise should be devised and perfected. Where the labor system is concerned, overall labor contract management, that is, an "enterprise-employee" system should be implemented. All enterprise employees, whether workers or cadres, must sign a work contract with the enterprise through a good labor union, canceling their original employee status in the enterprise. This breaks down the boundary between workers and cadres, and enables them to be addressed generally as "enterprise employees." Enterprises that implement the "enterprise-employee" system may, apart from the linkage with the total wage base, set aside hazardous-job compensation equal to 4 percent of the employee's total wage base. 2 percent of this is paid to the employee, and 2 percent is allotted by the enterprise as unemployment compensation. At the same time, a logically flexible system allowing two-way choices should be implemented, whereby employees could resign or be dismissed from their jobs, based on relevant clauses in their working contract. For personnel who have been laid off twice, enterprises must take an amount from the accumulated enterprise hazard fund that is comparable to 2 percent of the individual's basic wages, and turn it over to the office in charge of unemployed workers. This amount will be paid out monthly as a subsidized allowance. Unemployed workers who are still without jobs after a year should receive unemployment insurance in accordance with the relevant clauses in the labor contract. Enterprises with the right conditions may try flexible working schedules or shorter hours for some types of work and for some employees working in special sections.

As far as the insurance system is concerned, the formula for calculating employee retirement pensions and old age pensions should be revised, and changed to basic national insurance. Supplementary insurance should come from enterprise contributions and individual savings. The scope of unemployment insurance would gradually expand into many layers and be coordinated with the social insurance system.

As for the employee training and testing system, the "Rules for Testing Workers" must be enforced. This will carry out a system among the work force that combines training, testing, and utilization.

At present, the large- and medium-sized enterprises in Liaoning Province that are still undecided show great interest and enthusiasm toward these coordinated measures for reforming the labor system. Outstanding results have been obtained at the Jinchou Steel and Alloy Plant, which is one step ahead of the other enterprises.

AGRICULTURE

Liaoning Peasants Find Tax Burden Intolerable

Peasant Complaints

9/CEDSALA Beijing NONGMIN RIBAO in Chinese
18 Apr 91 p 1

[Article by staff reporter Zeng Yeung (256) 2814 2646].
"Wang Diancai Sells His Cow to Pay for a Trip to Beijing to Tell About His Burden"]

[Text] *Editor's Note:* The problems reported by Wang Diancai (3769 3013 2088), a peasant from Liaoning, give us much food for thought. An investigation conducted by our reporters has confirmed that the burdens imposed on peasants in that area are indeed very heavy, and the situation calls for serious attention.

Comrade Wang Diancai is commendable for his spirit in actively rounding up the peasants' opinions and voicing their complaints. However, it is regrettable that he had to sell his cow to pay for the trip. If the local authorities had adopted effective measures to reduce the peasants' burdens, such things would not have happened. We hope that all local authorities will listen attentively to the masses' opinions and earnestly follow the central government's call to stop the arbitrary imposition of production quotas, fees, and fines. It will help solve the problems at the grassroots level without causing more trouble to the masses.

In late March, this paper's Mass Work Department received an unusual visitor. Wang Diancai, a peasant from Taitan County, Liaoning Province, appeared at our Editorial Department with six reels of tape recordings. He came for the sole purpose of reporting on the burdens imposed on peasants. To pay for the trip, he sold his cow.

Wang Diancai said that he had long been a reader of NONGMIN RIBAO. Deeply touched by the article entitled "Laws Must Be Enacted to Reduce the Burden on Peasants" (published in NONGMIN RIBAO 18 December 1990 p 1), he decided to round up the reactions of peasants and present them to the relevant central department. Around the Spring Festival, he visited more than 600 families in over 10 townships, made six reels of on-the-spot tape recordings, and compiled three reports on peasant burdens.

He said that the party Central Committee and the State Council have put a limit to the burdens that can be imposed on peasants: they must not exceed 5 percent of the previous year's per capita income. However, some

local authorities in Liaoning Province have quietly raised the limit. For example, some cities have raised the limit to 8 percent and some counties have raised it to 10 percent. Because the percentage is raised at every level, the burdens on peasants have exceeded 15 percent in some places. He said that because of the heavy burdens imposed on them, many peasants have little left at year's end and their enthusiasm for farming has plummeted. Last year after the corn was brought to the market, all kinds of levies were imposed on the peasants. Even those who had little or no money had to pay and every peasant household was put in distress. Building roads, schools, and the like are all good intentions, but the peasants are unable to bear the costs. They were complaining and Wang Diancai himself could not take it any more.

On the eve of the Spring Festival, with no money to buy chemical fertilizers and seeds, he resolutely sold his cow to pay for a special trip to the NONGMIN RIBAO Editorial Department in hopes that the newspaper will speak out on behalf of the peasants and call on the State Council and the relevant departments to enact laws as soon as possible to stop the arbitrary imposition of production quotas, fees, and fines in rural areas and really reduce the burdens of the peasants.

Investigation Reveals Burdens

VICKTORIAC. *Buying NONGMIN RIBAO in Chinese*
18 Apr 91 p 1

[Article by Liu Qiang (049) 1730: "The Peasants' Complaints Are Reasonable"]

(Text) A peasant from Liaoning reported that the burdens imposed on peasants are too heavy. How heavy is it actually? Our men went to Liaoning along with a Ministry of Agriculture investigation team, and what they have learned is rather disturbing. Last year in Daquan Village, Hongqiao Township, Changtu County, after the autumn grain crop was harvested and sold to the state by the peasants, the village cadres accepted the payments for the grain, using the seal of the village's 312 peasant households that they had standardized and made for this purpose. Then various kinds of levies and assessments were deducted, not once but four times, amounting to nearly 480,000 yuan, more than 75 percent of the total grain payment received. More than 60 percent of the peasant households not only received nothing for their grain, but ended up owing money to the village. The peasants were furious and more than 20 of their representatives lodged complaints with the relevant provincial department. When the village cadres were questioned by the department, they said that there was no other way to get any money from the peasants. In fact, too much money had been taken from the peasants in the past few years. Last year, Daquan Village arbitrarily increased the amount of grain each peasant must sell to the state by 75 kg. A fine of 0.25 yuan per jin was imposed on those who failed to meet the grain procurement quota and such fines added up to more than

180,000 yuan. When comrades of the Liaoning Provincial Department of Agriculture and Animal Husbandry went to that village to conduct an investigation, they were shocked at what they heard from the peasants. It is reported that a record number of peasants, several hundred of them in more than 30 groups, went to the provincial capital to complain about their burdens to relevant departments last year.

The burdens on Liaoning's peasants have continuously grown at a much faster rate than their incomes in the past few years. According to statistics, the burden of fixed quotas on Liaoning's peasants increased 70 percent from 1987 to 1989, but their income increased only 7.1 percent in the same period. Their burden increased 9.8 times as fast as their income. In 1989, the average burden on peasants province-wide was 7.9 percent of the previous year's per capita peasant income. In 1990, it had grown to 12 percent, exceeding the proportion set by the State Council by 7 percent. In some places, it increased as high as 19.9 percent. For example, in Changtu County, the per capita peasant burden was 113.93 yuan.

A major burden on Liaoning peasants is the education surtax and various other education levies. Another is wages and allowances for the rapidly increasing number of rural cadres and nonproductive personnel. As a rule in Liaoning Province, "allowances for village cadres should not exceed one half of the average income of those doing comparable work in the same village." However, according to 1989 statistics, in 11,255 villages surveyed (71.7 percent of the total number of administrative villages in the province), 3,300 (21.2 percent) are paying 4 to 6 times the standard allowances to their cadres. Moreover, various trades and departments have "officials" and detachments of one kind or another assigned to the townships and villages. In Tieling City alone, the number of township cadres and other township personnel now totals 10,940, up 39.8 percent from 1983, averaging 75.5 persons for each township. And there are 45,870 village cadres and other nonproductive village personnel, up 32.6 percent from 1983, averaging about 30 per village and about 1 per 10 peasant households. The wages and allowances for these people are borne almost entirely by the peasants, averaging 15.72 yuan per peasant and amounting to 15 percent of the total burden on the peasants of that city.

A survey was made among basic-level cadres and the masses of peasants in various parts of Liaoning on the question of burdens. Two majority opinions have emerged. First, it is hoped that cadres at various levels will quit talking and acting big, pay greater attention to the actual conditions, and be more concerned about the well-being of the peasants. Before starting any construction or public welfare project, we should consider not only whether it is necessary but whether the peasants can bear the cost, and make sure it is not beyond what is possible and the peasants' capability. Second, it is hoped that relevant departments will proceed from actual needs and stop assigning personnel to rural villages at will.

Otherwise with all the personnel, yet no money forthcoming, the financial burden will ultimately fall on the shoulders of the peasants. How can the peasants not complain?

Outlook for Tea Market

9/CED3818 Beijing *NONUMIN RIBAO* in Chinese
8 May 91 p 2

[Article by Zhou Zhongxin (0719 1813 2450). "Upturn in the Tea Market Expected"]

[Text] China's tea production and marketing suffered a slump last year. Total output, procurement by the supply and marketing system, net sales volume, and export all fell below the previous year's level. How is the market situation this year? According to a forecast by the annual meeting of the National Tea Information Network, held recently in Qingdao, the market will be better this year than the last, but there is no reason to be overly optimistic.

1. No significant drop in output is anticipated. There are 15.97 million mu of tea plantations in China at present. The average yield per mu is fairly low and there is room for improvement. At the same time, since controls were lifted off the tea market, a number of densely planted and fast-growing tea farms have been established in various places. The peak picking period has just begun. According to a forecast by experts at the meeting, China's tea production will total about 500,000 tons this year, a 4 percent drop from last year.

2. Sales on the domestic market will increase steadily because tea can cure diseases and prevent cancer, and is a popular household beverage. Even though tea prices have doubled since controls were lifted, it is still cheaper than other beverages. Sales have thus not fallen into a continued decline. With the improvement of the people's living standard, the demand for tea will increase steadily. Quality high-grade teas in particular will be in great demand. Last year, domestic tea sales dropped in quantity but increased in terms of money received, indicating an increased proportion of high-grade teas sold. Right now some high-grade teas are running out of stock. This year is the "year of variety, quality, and efficiency." It is expected that new products that will have a ready market, such as the fat-reducing tea, ginseng tea, fast-dissolving tea, and tea foods, will be successively introduced. Sales will also increase gradually. All this will bring a new vitality to the tea market.

3. Exports will drop somewhat, but remain stable. Affected by the Gulf War and the unstable political situation in Eastern Europe, the international market is highly volatile. Moreover, with the reform of the foreign trade system, exporters must now assume sole responsibility for their own profits and losses. Tea exports have been a losing business. Therefore, this year's tea export plans have generally been curtailed. Foreign trade

departments plan to export 178,000 tons of tea for the country as a whole this year, a 7 percent decrease from the previous year.

4. Quality will be improved somewhat. Hit by a sluggish market, tea production and marketing units all over the country last year insisted on grading teas according to samples and fixing prices according to quality. As a result, the quality of various kinds of tea in China (improved by an average of 1 to 1.5 grades, as compared with the previous year. This year, they will continue this proven, effective practice and tea quality will be improved steadily.

5. Prices will remain stable. The average procurement price for various kinds of crude tea in China last year was 158.4 yuan per 50 kg, a 16.3 percent drop from the previous year. This is basically in line with the state's guidance prices. According to information from a relevant state department, this year's guidance price for tea will be maintained at last year's level. Therefore this year's general price level will tend to be stable, while prices of specific varieties may rise or fall depending on supply and demand. Price fluctuations will range from 3 percent to 10 percent.

Shanghai Vice Mayor Discusses Land Management

040107064191 Shanghai *JIEFANG RIBAO* in Chinese
25 Jun 91 p 2

[Article by Ni Tianzeng (0242 1131 1073), vice mayor of Shanghai. "Tightening Land Management is an Important Responsibility of Governments at All Levels"]

[Text] The State Council recently decided to designate 25 June each year as "National Land Day." This major decision made to tighten land management certainly will have far-reaching effects on controlling land resources efficiently and on implementing the basic national policy of cherishing each cun of land, using it rationally, and making great efforts to preserve arable land.

Land is a very valuable resource. It is an important asset of the state. Land is also the most basic means for agricultural development and the material foundation upon which man's survival and development depends. While agriculture is the foundation of the national economy, arable land, the foundation of the foundation, has a direct bearing on people's food and clothing.

China's land management entered a new stage in 1986 when the CPC Central Committee and the State Council issued their "Circular About Tightening Land Management and Stopping Unwarranted Use of Arable Land," and after the National People's Congress (NPC) Standing Committee examined, approved, and promulgated the "PRC Land Management Law." Since then, Shanghai has achieved fairly satisfactory successes in restructuring its systems governing land management and the use of land. One year earlier, in 1985, the

municipal party committee and the municipal government decided to set up the Shanghai Land Management Bureau. Then, with the subsequent establishment of land management organs in various districts, counties, townships, towns, and neighborhoods, the management of urban and rural land was centralized, and a new, three-tier land management network was established. Today Shanghai has more than 3,000 land management cadres. Meanwhile, in implementing the decisions of the CPC Central Committee, the State Council, and the Shanghai municipal government about halting any misuse of arable land for nonagricultural purposes, the municipal government discovered over 26,000 cases of all kinds of land misuse, and the total size of misused land was larger than 120,000 mu. These cases have been seriously dealt with, and the irregularity of misusing arable land has been basically stopped.

The municipal government has also tightened the approval of land for construction purposes, set targets for controlling land use, and revised land requisition measures. Under the new system, land management departments are authorized to take centralized steps in requisitioning land, thus speeding up the process of land requisition. The municipal government has also been successful in experimenting with ways to reform the system governing the use of land, and now relevant regulations and rules governing land use have been drawn up. Ever since July 1988 when Shanghai sold the right to use the first piece of state-owned land through international bidding, Shanghai made \$61.9 million through selling the rights to use five pieces of land with a total area of nearly 140 mu. The right to use state-owned land in Pudong will also be sold. Projects of selling rights to use rural land for homesteading purposes have now been widely carried out after some pilot projects were conducted in selected areas. The projects are important for preserving arable land and broadening the financial resources needed for infrastructural construction in rural areas.

The Shanghai Municipal Land Bureau, after its establishment, has achieved remarkable success in developing its business and training needed personnel. Shanghai's land registration has now been reestablished after it was interrupted for more than 30 years. Because of the hard work in the past three years, the registration and certification of land in downtown areas will be accomplished this year. With respect to management of land resources, the municipal government, in addition to making great efforts to conserve land resources, also pays attention to exploring new resources. In recent years, nearly 100,000 mu of land has been reclaimed for production from beaches and tidal land, and from land that had been deserted or idled. Furthermore, by imposing land taxes and collecting fees for land use, Shanghai has delivered nearly 1.1 billion yuan to the national and local treasuries, and the money is being used for reclaiming more land from beaches and tidal land, for supporting infrastructural construction in urban areas, and for developing production of nonstaple food. As a result of

educating cadres, the masses, and middle school students on the nation's land situation, land policy, and land law, they have become more aware of the basic national policy that people in the country should "cherish every inch of land, use it rationally, and make earnest efforts to preserve arable land."

In my view, we must attach greater importance to dealing with the following three issues so that land management in Shanghai can be even more effective:

1. We must be more aware of the importance of land management and provide stronger leadership over it. Commenting on China's four-modernization drive, Comrade Deng Xiaoping said: We must be aware of two important facts: First, our foundation is weak, and second, we have a large population but limited arable land. Leading comrades of the central authorities have also time and again stressed that the land issue is a very important issue, and that we must keep tightening land management, instead of putting off the issue. Statistics show that China has 1.4 billion mu of arable land and the capita share of arable land is 1.3 mu. In densely populated Shanghai, the capita share of arable land is even less, only 0.36 mu. This is only half of the size of that in 1949 and one-third of that of the national average, and it indicates the scarcity of arable land resources in Shanghai. Moreover, following Shanghai's economic and social development as well as its population growth, the capita share of arable land will continue to decline, and contradictions between land supply and demand will become even more acute. Leading comrades of governments and land management departments at all levels in Shanghai must soberly realize this problem. We should look at this issue from a strategic perspective, and be aware of the urgency of the issue and our historical responsibilities. In strengthening the leadership over this issue, the most important thing to do is to assign all government cadres specific responsibilities to fulfill, regard land management and population control as equally important, and strictly follow our plans in controlling the population from growing and the size of arable land from shrinking.

2. We must persist in carrying out reforms and do a more conscious job in restructuring the system governing the use of land. Under China's socialist land policy, land is owned by the state, owned by all the people, and owned collectively by the laboring masses. Under the premise of upholding the socialist system governing public land ownership, we must continue to reform the land use system. The reform has two objectives. First, use of land should be compensatory. This is the direction of the reform. Presently, only small tracts of land are used on a compensatory basis. In the future, the use of all land for nonagricultural purposes must be compensatory. In this respect, our attitude must be positive, our steps must be firm, and our methods must be practical. We must be brave in carrying reforms and make constant efforts to sum up our experiences so that we can learn from them and improve them. Presently, areas that have yet to have any regulations for compensatory use of land should

conduct some experiments and then proceed with the project when they have gained some experiences. Second, we should permit sales of rights to use land on the market. Only when the rights to use land can be repeatedly traded on the market can our land resources be used most rationally, economically, and effectively on a compensatory basis.

3. We must intensify legislation and increase our awareness of managing our land resources according to law. To manage land properly and stop the phenomena of replacing law with authority or decrees, one very important experience is to do our jobs according to law and regulations. In the area of land management, we must, while strictly implementing the "Land Management Law" and the many specialized laws and regulations prescribed by the State Council, strictly implement the local laws and administrative decrees promulgated by the municipal people's congress and the municipal government. This is an important premise of managing our land resources properly by means of law.

While legislation is important, law enforcement is even more important. Governments at all levels must make sure that land management personnel at all levels have the right mentality, conduct themselves properly and competently, and have the right rules to follow; and they must provide the necessary supervision so that they can perform their responsibilities more efficiently in serving the strategic objective of "revitalizing Shanghai, developing Pudong, serving the whole country, and looking forward to the world."

Export Of Cereals, Oils in First Half of 1991

HK1007001191 Beijing CEI Database in English
29 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils, food, and cotton in first half of 1991, released by the General Administration of Customs.

Name	Unit	January-June 1991	January-June 1990
Pigs	Head	1,321,783	1,370,833
Poultry	up 10,000	2,107	2,110
Beef	ton	85,818	52,002
Pork	ton	81,936	58,679
Chickens	ton	11,504	13,716
Rabbits	ton	4,632	6,396

Eggs	in 1,000	337,201	314,110
Aquatic Products	ton	158,397	183,547
Fish	ton	34,421	18,782
Shrimps	ton	13,370	36,802
Cereals	ton	8,678,283	2,880,377
Wheat	ton	290,136	101,783
Soybeans	ton	500,504	517,194
Pulses	ton	400,280	548,300
Maize	ton	3,280,510	1,274,548
Vegetables	ton	412,000	320,199
Fruits	ton	50,973	64,631
Oranges	ton	21,637	25,788
Apples	ton	1,004	20,547
Sugar	ton	110,443	289,168
Canned food	ton	281,720	280,016
Pork	ton	36,843	47,174
Vegetables	ton	152,288	133,128
Fruits	ton	48,333	56,746
Chicken	ton	41,337	40,970
Vegetable oil	ton	68,140	83,330
Peanut	ton	283,427	201,323
Cotton	ton	122,940	84,701

Imports of Cereals, Oils in First Half of 1991

HK1107121491 Beijing CEI Database in English
31 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in first half of 1991, released by the General Administration of Customs.

Name	Unit	January-June 1991	January-June 1990
Cereals	ton	8,554,064	7,807,784
Wheat	ton	8,108,568	8,617,158
Soybeans	ton	248	583
Sugar	ton	521,223	509,801
Animal oils and fats	ton	83,702	22,063
Edible oil	ton	1,051,538	851,683
Other oils	ton	40,1177	370,826

Survey on Executed Capital Prisoners

9/CMD4474 Shanghai SHEHUI (SOCIETY)
in Chinese No 73, 20 Apr 91 pp 19-21

[Article by Zheng Han (6774 1383): "An Investigative Analysis of Executed Capital Prisoners and a Discussion of the Major Ways To Prevent and Combat Serious Crime During the Next Few Years"]

[Excerpt] (passage omitted) In the past five years, Shanghai has executed a number of extremely cruel and black-hearted criminals whose crimes cannot be forgiven. This article investigates and analyzes these executed capital prisoners. (passage omitted)

1. Survey Data and Analysis of Executed Criminals

1. Age:

Looking at the age composition, the average age of capital offenders was approximately 30, and the average age for prisoners overall was only 29.66 years. It should be noted that the age group between 18 and 30 years of age accounted for 65.1 percent of all prisoners. This shows that young adults' involvement in capital crimes has become extremely serious. In August 1979, the party Central Committee issued a "Report Proposing That the Whole Party Give Priority to the Problem of Crime and Illegal Activities Among Young Adults." It demanded that the party concern itself with educating youths and focusing on the problem of youth crime. In October 1985, the party Central Committee again issued a "Notice Concerning Further Improving Youth's Education and Preventing Crime and Illegal Activities Among Young People." This stressed that the whole party and the whole society take action and implement joint control. In keeping with the spirit of the Central Committee's instructions, various levels of the party and government, as well as various social sectors, worked strenuously and painstakingly to educate and rescue a large group of misguided youth. Departments handling reform through labor and reform through education also educated and reformed a large group of young people who were involved in illegal and criminal activities, achieving great success. But illegal criminal activities among young adults is still increasing on a large scale, and most serious crimes are committed by young people. All circles of society need to pay close attention to this.

2. Employment status:

The statistics show that a large amount of the capital offenders were laborers. This is in keeping with Shanghai's social structure, where industry and commerce are highly developed. However, the unemployed, peasants, and the self-employed accounted for relatively large shares. Among them, the unemployed not only made up the second largest group, but they showed a tendency to account for an increasing share each year. By 1990, they were close to becoming the largest share. This was directly related to changes in social consumption and value perceptions and the economic insecurity of the unemployed, which led them to be reckless and commit

crimes. Peasants were executed for murders arising from adultery and family disputes, as well as from rapes and other crimes, because the cultural level among villagers was rather low, and male-female relationships were backward.

3. Nature of the crimes:

The relative incidence rates of various crimes will vary, because at various times law-enforcement authorities will stress fighting one crime more than another. However, this effect can be canceled out by accumulating statistics over five years, so that the true pattern emerges.

Based on the statistics, pre-meditated murder and robbery occupied first and second place respectively, together accounting for 62.42 percent of all capital crimes. This shows that these capital criminals were a serious threat to society and to the lives, property, and security of the masses, and that their crimes were unforgivable. The most common reasons for pre-meditated murder of a spouse were that the spouse had committed adultery, the spouse was living with another person, the person had been forced into the marriage by the spouse, or that it was done to remove an obstacle to an extra-marital affair with a "third person." The second most common reason was compulsion brought on by an abnormal feeling of frustration due to sexual rejection, or else because a man had tried to break off a relationship with his lover (because she had become pregnant and he wished to escape his responsibility, or because he wished to look for someone else) and then killed her after she refused to break it off. Together, these two motives accounted for 45.94 percent of pre-meditated murders. Therefore, pre-meditated murder and robbery are the major types of capital crime.

Statistics show that economic crimes (including robbery, theft, gambling, bribery, and crimes arising from disputes over debts) accounted for 54.81 percent of the total. The second largest group of crimes were crimes of a sexual type (including rape, statutory rape, forced prostitution, and crimes arising from adulterous relationships and failed affairs), accounting for 29.97 percent of the total. Clearly, sex and economics are two of the main causes of capital crimes.

Statistics also show that robbery and theft rates are rising sharply. In 1990, bribery cases that resulted in death sentences appeared for the first time. This was definitely related to economic development, which led to the negative influence of conspicuous consumption, as well as to the fact that some enterprises were poorly managed, providing opportunities for certain bad people.

4. Crimes by individuals, partners, and gangs:

Crimes committed by two or more partners, or by gangs of three or more, accounted for almost half of all capital crimes. Moreover the number tended to rise each year. This problem is very worthy of society's attention.

SOCIAL

The saying "birds of a feather flock together" and "people can be judged by the company they keep" describes a characteristic feature of all human beings in society. If members of any group have some psychological deficiency or bad thinking, they will influence one another with those unhealthy thoughts. This will incite others, and draw them into malevolent crimes. This cohesive and corrupting influence is especially strong when female hoodlams enter the group.

5. Previous criminal records

Statistics show that, among capital offenders, almost half had criminal records, and a third had been sentenced to reform; these numbers increased annually. Most of them were recidivists or habitual offenders. Robbers, thieves, and murderers were most commonly habitual offenders.

When people are released from reform through labor or reform through education and nevertheless commit crimes again, it certainly has to do with their being set in their bad ways, with their impetus to commit crimes having become part of their natures. However there are other, more complex social reasons as well. Since reform and opening up, the influence of corrupt Western culture and ideology, consumerism, and other negative factors has developed into deleterious social factors. These "invalids" who are returning to society have only a weak

resistance to the erosion of these various diseased organisms. In addition, some of them will have a strong desire for revenge and compensation, and so are easily led to commit crimes again.

6. Local situation

Shanghai proper has about four times the population of its surrounding districts, but its rate of capital crimes is only almost twice that in surrounding areas. This shows that the rate of capital crimes in surrounding districts is much higher than in the city. This is mainly because the surrounding districts have a low cultural level, and the rate of crimes arising from ignorance and backwardness is higher there than in the city. Capital cases in surrounding districts usually involved murders arising from adulterous relationships or family disputes. In the last few years executions of female criminals almost always involved cases in which women from surrounding districts killed their adulterous husbands.

Following the development of China's market economy, worker mobility has expanded daily. As people come to Shanghai on business or to do construction work, the number of them who commit crimes has also increased, leading to a sharp increase in outsiders committing crimes in Shanghai. Of those criminals from other areas who were sentenced to death in the last five years, 45.36 percent were sentenced in 1990. In that year they accounted for one-fourth of all prisoners with death sentences. The cases involved mainly robberies, thefts, rapes, etc. [passage omitted]

NORTH REGION

Beijing People's Congress Hears Work Report

SA2307115391 Beijing BEIJING RIBAO in Chinese
6 May 91 p 2

[Excerpts of the work report of the standing committee of the Beijing Municipal People's Congress, delivered by Ma Yanji, vice chairman of the committee, at the fourth session of the Ninth Municipal People's Congress on 21 April 1991]

[Excerpts] Fellow deputies:

Entrusted by the Standing Committee of the municipal People's Congress and Chairman Zhao Pengfei, I submit a work report to the session for examination.

Since the conclusion of the third session of the ninth municipal People's Congress in March 1990, the Standing Committee has conscientiously implemented, according to the resolutions of the People's Congress, the principles and policies set forth after the fourth session of the 13th party Central Committee, positively carried out its work in line with the targets for steadily developing the capital's political, economic, and social situation, promoting the smooth progress of improving the economic environment, rectifying the economic order, and deepening reforms, and successfully convening the Asian Games, and made efforts to perform the duties entrusted by the Constitution and the law. Over the past year, the Standing Committee convened eight meetings to examine and approve seven rules for local People's Congresses and a decision concerning rules and regulations, examined 10 reports on implementation of laws, rules, and regulations, examined 23 motions delivered by the municipal People's Congress, heard and examined 25 work reports made by the municipal people's government, the municipal higher people's court, and the municipal people's procuratorate, strengthened the supervision over the work of the administrative, judicial, and procuratorial organs at the same level, appointed and dismissed and approved to appoint and dismiss 152 working personnel of state organs in the municipality, and helped district, county, town, and township People's Congresses smoothly fulfill their end-of-term electoral work tasks. Now, I am going to report the major work done over the past year as follows:

1. We have positively assumed responsibility for formulating rules for local People's Congresses and provided assistance and guarantees for reforms and construction.

The Standing Committee examined and worked out the "Beijing Municipal Regulation on Family Planning" and regulations on organizational management of family planning work, implementation of eugenics and birth control measures, and management of family planning of the population that is residing temporarily in the municipality. The Standing Committee examined and worked out the "Beijing Municipal Method for Implementing the 'PRC Law on Land Management'" and the "Beijing

Municipal Regulation on Banning Gambling." The Standing Committee also examined and worked out the "Beijing Municipal Regulation on Protection of the Handicapped," and formulated the "Beijing Municipal Regulation on Trade Unions of Joint Ventures."

The Standing Committee examined and worked out the "Beijing Municipal Method for Implementing the 'PRC Fishery Law'" and the "Beijing Municipal Regulation on Making the Urban Areas Green," approved the decision on strictly punishing those who spit freely in any place and those who wantonly litter, and also preliminarily examined the "Beijing Municipal Draft Regulation on Education for Staff And Workers." [passage omitted]

2. We have supervised and examined the implementation of laws, rules, and regulations according to requirements that there are laws to abide by, and laws already enacted should be observed and enforced to the letter.

Over the past year, the Standing Committee successively heard and examined reports on implementation of the regulation on protecting minors, the regulation on protecting the legal rights and interests of consumers, the regulation on enforcement of the law on preventing air pollution, and the regulation on protecting water conservancy projects, and also organized Standing Committee members and deputies to examine and supervise the implementation of these regulations. [passage omitted]

3. We examined the implementation of the national economic and social development plan and the budget, and helped promote economic development.

Supervising the implementation of the national economic and social development plan and the budget is an important content of the supervisory work of the Standing Committee. Over the past year, the Standing Committee successively heard and examined the reports on implementation of the national economic and social development plan and the budget, and the report on readjustment of the budget. Authorized by the municipal People's Congress, the Standing Committee approved, according to law, the 1989 final accounts, and also heard and examined eight reports on special subjects relating to industrial production, implementation of the plan for popularization of technologies, the launching of the general tax, financial, and pricing inspections, and the strict enforcement of financial and economic laws and discipline. [passage omitted]

Lack of water resources was an important factor affecting the municipality's economic development. The Standing Committee heard and examined the municipal government's report on handling motions on economizing on water, set forth opinions and suggestions on implementing water-saving measures, upgrading the water re-utilization rate, and bringing into play the role of water charges as a lever to save water, and also organized relevant departments to map out local rules and regulations on economizing water.

4. We examined and discussed the major issues that the people generally were concerned with.

Successfully holding the 11th Asian Games was the common aspiration of the people in the capital as well as the entire nation. To examine and promote the completion of the preparatory work for the Asian Games, under the support of the National People's Congress (NPC), the municipal People's Congress Standing Committee and various district and county People's Congress Standing Committees successively organized more than 1,800 people, including the deputies to the NPC living in Beijing and deputies to the municipal, district, and county People's Congresses, to conduct general inspections respectively in June and August. The general inspections effectively helped promote the successful convocation of the Asian Games. [passage omitted]

The masses were generally concerned with the educational quality of primary and middle schools. More than 110 deputies jointly put forward eight motions on the educational quality of primary and middle schools at the session. The municipal, district, and county People's Congress Standing Committees conducted investigations and study on this issue for six months, and made in-depth studies in many spheres in order to upgrade the educational quality. [passage omitted]

5. We guided district, county, town, and township People's Congresses' end-of-term electoral work, and promote the setup of democratic politics.

Last year, the district, county, town, and township People's Congresses conducted end-of-term elections. Under the leadership of the municipal party committee and in line with the spirit of fully carrying forward democracy and handling affairs strictly according to laws, the Standing Committee strengthened the guidance over the end-of-term electoral work, successfully made decisions on election schedules, quotas, organs, and electoral work, and established offices directly in charge of the electoral work. [passage omitted]

A total of 4,891 deputies to the district and county People's Congresses, and 11,922 deputies to the town and township People's Congresses were elected through the end-of-term elections. [passage omitted]

6. We strengthened contacts with deputies and the people, and further brought into play the functions of deputies.

To implement the guidelines of the decision on strengthening the contacts between the party and the masses as set forth at the sixth plenary session of the party Central Committee, the Standing Committee positively carried out the work in regard to establishing contacts with deputies and the people. Over the past year, in line with the central tasks of the municipality and the subjects discussed at the Standing Committee meetings, the Standing Committee successively organized inspection and investigations groups of different scales and held forums on 176 occasions attended by 3,966 deputies.

Simultaneously, 193 deputies were invited to attend the Standing Committee meetings and the meetings of Standing Committee members as non-voting delegates. [passage omitted]

Fellow deputies

The years from 1991 to 2000 is a key period of extreme importance in the history of China's socialist modernization. According to suggestions made at the seventh plenary session of the 13th party Central Committee, the fourth session of the Seventh NPC that concluded a few days ago, examined and approved the outlines of the 10-Year Program for national economic and social development and the Eighth Five-Year Plan, and worked out a program of action for realizing the second-step strategic objective of modernization. The realization of this grand blueprint has a bearing on the consolidation and development of the socialist system and the future and destiny of the Chinese nation. This congress will approve the outlines of the municipal 10-Year Program for national economic and social development and the municipal Eighth Five-Year Plan made by the municipal government, and define the common fighting goals and tasks of the people in the capital. The municipal People's Congress and the Standing Committee should conscientiously carry out the duties entrusted by the Constitution and the law and work positively to promote the realization of the 10-Year Program and the Eighth Five-Year Plan. In line with the principle of democratic centralism, we should strengthen the construction of the local organs of state power so as to make the People's Congresses and their standing bodies authorized organs of state power and better utilize their functions of promoting the municipality's economic development and social progress.

The year 1991 is the first year to realize the second-step strategic objective of socialist modernization and the Eighth Five-Year Plan, as well as the year to continuously improve the economic environment, rectify the economic order, and deepen reforms. According to the current actual conditions, we plan to strengthen the work in the following three spheres. First, we should further focus work priorities on major issues relating to the construction and development of the capital. We should thoroughly conduct investigations, make efforts to pool the wisdom of Standing Committee members, deputies, and the vast number of the people, conscientiously examine and discuss the reports delivered by the government, the court, and the procuratorate, make decisions and resolutions if necessary, further conduct more effective supervision and give more effective assistance, and strive to promote the smooth progress of the capital's modernization. Second, we should strive to strengthen the construction of the socialist legal system. [passage omitted] Third, we should establish close contacts with the masses, bring the deputies' functions into full play, and let the people play their role as masters of the country. [passage omitted] We should also ideologically, organizationally, and systematically strengthen the Standing Committee's self-construction, strengthen and

improve the work of various Standing Committees, establish close contacts and cooperate with district and county People's Congress Standing Committees to upgrade the study and training work for the cadres of People's Congresses, and make Standing Committees better take on the increasingly heavier work tasks. Under

the leadership of the party, we should closely rely on the people, unite as one, work arduously, and make due contributions to promoting the construction of the capitalist socialist democracy and legal system and to realizing the 10-Year Program and the Eighth Five-Year Plan.

Feasibility of Six-Year Plan

91CE05324 Hong Kong CHING-PAO [THE MIRROR] in Chinese No 4, 10 Apr 91 pp 80-81

[Article by Sung K'e-han (1345 0344 1383): "How Feasible Is Taiwan's Six-Year Plan?"]

[Text] Taiwan authorities believe that the plan will play an important role in improving Taiwan's future economic growth and citizens' quality of life. The people are concerned that it is too great a waste of funds, is unrealistic, "will require the next generation to repay the debt," and "will not enrich the people."

The Six-Year Economic Construction Plan, Taiwan's vast project and huge waste of funds, after ideas were solicited from every quarter and public hearings were held, was debated by the Executive Yuan and formally passed by the Executive Yuan on 1 February. According to the official announcement, this is an important measure by the Taiwan authorities, further expanding the scope and lengthening the duration of national development on the basis of several four-year economic construction plans and will play an important role in improving future Taiwan economic development and the quality of life of its citizens. But the people are concerned that it is a huge waste of funds, unrealistic, "will require the next generation to repay the debt," and "will not enrich the people."

The Plan's Main Points and Goals

This huge plan that starts to be implemented from this year and matches President Li Teng-hui's six-year term of office was proposed by Premier Hao Po-ts'un after he took office last June. It was formally passed by the Executive Yuan on 1 February this year and takes the place of the Four-Year Plan of former Premier Yu Kuo-hua that had not been implemented for a full year, and is the key point of his administration. The plan stipulates that it is to be personally directed by Hao Po-ts'un and will be his personal project. So, some have indicated that the name should be changed from the Six-Year Economic Construction Plan to "Hao Po-ts'un's" administrative plan.

The Six-Year Economic Construction Plan's total investment is new Taiwan [NT] \$8.2 trillion. According to the Executive Yuan Economic Planning and Development Council announcement, the eleven key projects of the Six-Year Plan are: 1. Electrical Development—After six years installed electrical capacity will increase to 27,530 megawatts. Presently the installed capacity is 19,370 megawatts and the electrical reserve rate is only 8.4 percent. In the future it can be raised to 20 percent. 2. Airline Passenger Transportation—The passenger service capacity of Chiang Kai-shek International Airport is 8 million. It has now reached 7.73 million, near saturation. After the Six-Year Plan the capacity could be enlarged to 20 million, two and one-half times the present level. And the Chiang Kai-shek International Airport's air freight is 410,000 metric tons, also near

saturation. In the future, it will be enlarged to 1.41 million metric tons. 3. In the Six-Year Plan 28,000 hectares of farmland is scheduled to be taken out of use. 4. The high-speed north-south railroad, approximately 90 minutes from Taipei to Kaohsiung, will be completed. 5. The Environmental Protection Sector, such as sewers, clean up of rivers and streams, trash disposal, production and use of unleaded gasoline, and reduction of the sulfur content of gasoline. 6. Medical Treatment and Health Care—By 1994 health care will be implemented for all citizens, a general medical treatment net will be established, and additional regional hospitals will be constructed. 7. The government will assist in the construction of 300,000 residences and the private sector will construct 600,000. 8. Four regional higher education nets—north, central, south, and branch—will be established. Each region will establish at least one new complete comprehensive university campus and add an upper middle school. Also, they will complete rural libraries, swimming pools, athletic fields, and rural baseball diamonds. 9. Social Welfare—They will expand the welfare of the elderly, the handicapped, and women and children, and improve the welfare of residents of remote areas and mountain people. 10. Establish 18 living perimeters. 11. They plan to establish regional leisure and recreational facilities and a system of urban green park land and a system of fitness consultants. In six years, they will satisfy the demand that each person travel five times a year.

Relevant circles have pointed out that the overall goals of the Six-Year Plan are divided into: 1. A six-year average economic growth rate of 7 percent. 2. This year's consumer price inflation rate of 5 percent would be the upper limit, and from 1992 to 1996 it would not exceed 3.5 percent. 3. In the next six years, the average industrial growth rate would be 6.9 percent and the service industry would be 7.8 percent. 4. Merchandise and labor exports and imports in 1996 would be increased to U.S.\$122 billion and U.S.\$120.72 billion respectively, and the trade surplus would be reduced to U.S.\$3.00 billion. It is predicted that by 1996 the average national income will approach U.S.\$14,000.

From the perspective of the Six-Year Plan's key projects and the goals which it is seeking to accomplish, it truly is a forward-looking and structured plan. The main program orientation of this plan consists in the four points of raising the national income, invigorating industrial potential, balancing regional development, and raising the quality of life.

Questions Raised by the Plan

Even though the Taiwan authorities have the highest expectations for the Six-Year Plan, Premier Hao Po-ts'un has even greater expectations, terming it "an important administrative measure" with the most mammoth scope in forty years. He emphasizes that when the Six-Year National Development Plan is completed, will be a day when the Chinese people on Taiwan gain dignity and win respect. Observers believe that this plan,

in addition to the factor of Taiwan's own economic development, must also include taking over Hong Kong's international position after 1997 and maintaining an economic lead over the mainland's political advantage scheme.

But, with the exception of Taiwan's upper echelon, from finance officials to various private sector circles, everyone has expressed varying degrees of doubt and lacked optimism for the Six-Year Plan, mainly manifested in the following two respects: 1. They believe that the plan was passed too quickly, almost perfunctorily, and it was not possible to solicit a broad range of citizen opinion for the whole plan. Some experts and scholars did not have sufficient time to offer opinions. 2. The plan is too huge and unrealistic, and it will be difficult to raise the funds. The authorities do not have a realistic mentality and are weaving "beautiful dreams."

For example, the argument expressed by Taiwan's Chinese Economic Research Institute researcher Ma K'ai (7456 0418) that "the Six-Year Plan matches Li Teng-hui's presidential term" could make people think that it is a "political show" and could discount its significance for Taiwan's long-term developmental goals. Scholars and experts are worried about two issues: The first is whether the government bonds can be sold. If the interest on the government bonds is raised without limit, it will certainly be easy to sell them. But how will the government repay in the future? If we place our hopes on increased taxes, it is "established on an extremely dangerous Keynesian 'multiple effect.'" The second is concern that the government will "take out a new debt to repay the old debt" or repay the debt by "printing bills." In either case it "would not enrich the people." Moreover, acting in that manner will result in inflation, a shortage of private sector funds, falling stocks, and drying up of private enterprises for Taiwan.

In addition to scholars and experts lacking optimism for the Six-Year Plan, recently in the Six-Year National Development Plan Evaluation Symposium sponsored by Li Teng-hui's brain-trust, the National Policy Center, former Minister of Economic Affairs Li Ta-hai and presidential national policy adviser Wang Yu-yun criticized the Six-Year Plan as "unwieldy and lacking an overall plan." Wang Yu-yun used the example of the 14 developmental plans that the authorities initiated 12 years ago which still are not completed (two major projects begun in southern Taiwan in 1978—the south link railroad and the south link highway—have taken 12 years and still have not been completed) to say, "I really do not believe that in the present six years, the NT\$8.3 trillion worth of projects planned will be completed." He said, "If half of this plan can be completed, it will not be bad. This way of handling things fundamentally verges on destroying the nation."

Faced with the pressure of opposition and criticism from various quarters, Hao Po-tsun's explanation is, "The plan is not law, it is only a guiding plan." Every year it will be further reviewed and revised in accordance with

the actual situation. The Taiwan media hope that future procedures will include annual reviews, revisions, and improvements to adapt the plan to actual needs and attain the desired goals without adding too much to the people's economic burden.

KMT's Treatment of DPP Criticized

91CM04344 Taipei HSN HSN WEN /THE JOURNALIST/ in Chinese No 215, 28 Apr 91 pp 41-43

[Article by Li Wan-tsun (2621 2519 2629) "Li Teng-hui Should Change His Attitude Toward the Opposition Party"]

[Excerpts] [passage omitted] After the successive exchange of blows between Kuomintang [KMT] and Democratic Progressive Party [DPP] legislators at the provisional meetings of the Legislative Yuan and the National Congress, some made the suggestion that the chairmen of the two parties should meet to discuss ways to resolve their differences, but Li Teng-hui did not respond. After the DPP decided to launch the 17 April demonstration however, many feared that this could result in tragic casualties and Li Teng-hui was again called to personally avert the crisis. He did respond partially to this suggestion. While he still refused to meet with opposition leaders, such as Huang Hun-chieh, he did make a television appearance and statement. Although he tried to placate the opposition party by saying that "the amendments to the Constitution made at the provisional meetings are not final, and can be changed at the Second National Congress," many people felt that his statement came "too late" and that such a perfunctory statement could not stop the DPP Central Committee from launching its big demonstration that was scheduled to begin about a dozen hours later.

But when he saw about 30,000 demonstrators still occupying Taipei's streets and refusing to disperse on the evening of 17 April, Li Teng-hui finally sent a group of negotiators, led by Sung Ch'u-yu (1345 2806 3842) and including KMT workers, businessmen, professors, and TV station directors, to talk with the DPP all night, and Li was finally forced to sign a truce to stop the demonstration. [passage omitted]

The KMT was quite pleased with the way it settled the 17 April crisis and believed that its handling of the incident proved that the party was capable of handling crises. However, the best way to handle a crisis is to not let it arise in the first place, instead of running around looking for ways to resolve it after it does.

The 17 April mass movement was a crisis that actually could have been avoided. There is a question of whether it was worth it for the DPP to mobilize 30,000 people for a 15-hour march, only to finally gain a possibly unnecessary last-minute concession from the KMT. But if the KMT can make last-minute concessions or, as Sung Ch'u-yu said, "this is not a concession, but rather what the KMT should have done in the first place," why did it not show its hand by consulting with the DPP sooner?

And why did it not do what it should have done in the first place, instead of waiting until 30,000 people were demonstrating in the streets before it rushed around looking for someone to negotiate the crisis? After the Meditao incident, Lin Yi-hsiung [2651 5030 7160] criticized the KMT as being a regime that could make concessions and reform only under pressure. Recalling this criticism some dozen years later, it seems that the KMT has not made much progress.

Although the KMT used to regard "those outside of the party" as great scourges, Liang Su-jung [2733 5126 2051] and Kuan Chung [7070 0022], who were responsible for non-party contacts, often got together without necessarily having any business to conduct, to drink and chat with non-party leaders, mostly those connected with the Meditao magazine. Chiang Ching-kuo also occasionally met privately with non-party figures, such as K'ang Ning-hsiang [1660 1337 4382], for simple meals and to talk. Even though the DPP is now a legal political party, many KMT members still treat it as if it were an enemy. When the political situation is fine, no one wants to have any contact with the DPP. Even when there are issues to discuss, the KMT still does all it can to send out certain low-level officials first, who have a haughty and perfunctory attitude toward the DPP secretary general, and even the KMT party chairman sends out Central Committee deputy secretaries only when he is forced to. Only when major issues arise will KMT Secretary General Sung Ch'u-yu take personal charge. Very few meetings have occurred in recent years between KMT Chairman Li Teng-hui and opposition party leaders. Furthermore, almost every meeting that has taken place has come about because the opposition party initiated an interview and the presidential palace finally agreed, as if it were granting a great imperial favor. Li Teng-hui does not seem to regard meeting with the opposition party as the business of the ruling party chairman or the head of state.

When Li Teng-hui refused to meet with opposition party figures in the past, his rationale was that he did not want to be taken advantage of, which shows that he regards meetings with opposition party figures as a tool. When he needs the opposition party, such as when calling together a national affairs conference, he will meet with them. Such meetings, however, have only ceremonial significance. But when the opposition party is disinterested, he refuses to meet with it, viewing his refusal as a means of punishing it. [passage omitted]

In order to preserve his room for maneuver, a head of state cannot attach primary importance to all matters. While everyone understands this principle, pushing matters of primary importance onto the back burner, refusing to meet with the opposition party out of false modesty, or giving only ceremonial significance to such meetings seems to mean that they are put in the category of receiving foreign guests. This deserves reflection.

Li's talk about amendments to the constitution for example. This is a very important state matter. However,

after completing the national affairs conference ceremonies, Li Teng-hui had the KMT prepare and draft constitutional amendments in a closed-door one-party session and ceremoniously sent his runners to consult with DPP leaders only after the amendment decisions had been made. While he acted as if he was listening to the opinions of the opposition party, he was actually toying with it, as if he was taking candy from a baby, which naturally aroused the opposition party's resentment. DPP leaders, such as Huang Hun-chieh and Chang Chun-hung [1728 0193 1347], were subjected to inner-party criticism after every consultation with the KMT, the major reason being that such consultations between political parties had only ceremonial significance because they were not on an equal basis, and each one left the DPP being toyed with once again. Because going to the conference table was asking to be humiliated, the opposition party's only option was to take to the streets.

Although ice and hot coals are difficult to mix, except during elections when the ruling and opposition parties must fight to the bitter end, normal interparty relations certainly need not be so difficult. Since high KMT officials, such as Li Teng-hui, Hao Po-t'ün, and Sung Ch'u-yu, can regularly invite old friends from the business world to eat, chat, and play tennis without the slightest concealment, why can't they also associate with opposition party figures? If they had come to better understand each other, things would not have reached the present situation in which the leaders of the two parties harbor suspicions against each other instead of understanding and cooperating, and have to turn to "outsiders," such as Ch'en Chung-kuang [7115 6850 0342] and Weng Hsiu-kung [5040 0208 1872], for help in mediating crises. If such "abnormal" relations between the ruling and opposition parties continue, people are certainly going to worry about when there will be a tragic confrontation between them. [passage omitted]

A senior official may have public but not private friendships. Of the three major KMT bigwigs, Hao Po-t'ün is the hardliner who almost regards the DPP as an enemy. Whenever he has the chance in the Legislative Yuan, he is certain to put on a stern expression and scathingly denounce the legislators who oppose him. He also had never gotten together to chat with DPP leaders. As Sung Ch'u-yu has never had any friendly relations with the opposition party, he is always forced to turn to people, such as Ch'en Chung-kuang, for help whenever major issues arise, and will absolutely not meet with the opposition party in person except as last resort. Even though Li Teng-hui is the first ROC president of Taiwanese descent and theoretically does not have any irreconcilable differences with the opposition party, which is composed mostly of people of Taiwanese descent, he has always treated meetings with the opposition party as "exceptions" during his years as president and regarded them as a ceremonial instead of institutional task and thus does not have a particularly smooth relationship of mutual assistance with the opposition party.

The peculiar phenomenon that exists in Taiwan is very rare among democratic countries. While all sorts of businessmen can be regularly seen coming and going in the presidential palace, the president's official residence, and the Executive Yuan, opposition party figures have never been seen in these places and no opposition party leaders are seen on diplomatic occasions either. Despite the fact that the opposition party and the KMT live on the same piece of land, they certainly live in two absolutely different worlds and experience two absolutely different lifestyles. When people from these two worlds meet to occasionally talk, it seems to be a third type of contact between earthlings and interstellar beings and becomes headline news, which seems sad yet amusing. [passage omitted]

Military Procurement Dominated by Eight Leaders

91P301394 Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 256, 1 May 91 pp 62-63

[Article by Chang Trung-chi (1728 1350 3823): "Eight Key Leaders Dominate Taiwan's Military Purchases"]

[Text] Chief of the Defense Procurement and Services Coordination Mission General Kuo Yun, who served in the United States seven years in charge of Taiwan's military procurement, will return to Taiwan in June to assume the position of vice chairman of the board and chief executive officer of the Institute for Information Industry. Once Kuo Yun leaves his post as chief of defense procurement, his likely successors as considered by the military are, in order: Dean of the Chung Cheng College of Engineering and Deputy Director of the "Skybow [T'ien Kung 1131 1712] Plan" Ch'en Chuan-kao, Deputy Head of Logistics Lin K'e-ch'eng, Dean of the College for National Defense Administration Yuan Hao, Executive Chief of the Chung Shan Institute of Science and Technology Chou Kan, Director of the Aeronautics Development Center Hua Hsi-tiao, and Deputy Chief of Staff Hsia Tien. If the nomination for a new national defense procurement chief is confirmed, then a new grouping will emerge constituting the future main leadership administering military procurement affairs.

Ever since Hao Po-ts'un was appointed as chief of staff in 1981, the greatest authority over Taiwan's foreign military purchases has rested entirely in his hands. All those military leaders fostered by Hao Po-ts'un through "military sales" and who have at one point been in charge of foreign procurement of military goods include Presidential Palace Second Bureau Chief Ts'ao Ssu-chi, Air Force Commander Lin Wen-li, Vice Commander Tang Fei, Chief of Staff Chi Cheng-wen, Naval Commander Ye Ch'ang-t'ung, Deputy Chief of Staff Hsia Tien, Head of the Chung Shan Institute of Science and Technology Liu Shu-hsi, his deputies Hu Yu-t'ung and Wu Mou-t'ai, Executive Chief of the Chung Shan Institute of Science and Technology Chou Kan, Deputy Chief of Logistics Lin K'e-ch'eng, Aeronautics Development

Center Director Hua Hsi-tiao, Dean of the National Defense Administration College Yuan Hao, Dean of the Army Officers' College Hu Chia-ch'in, and others.

From an analysis of the arrangement of personnel, it can be seen that the current leaders involved in deciding policy on military procurement, besides Hao Po-ts'un, are in order: Chief of the General Staff Chen Shen-ling, Deputy Chief of General Staff and executive officer Chen Chien-kao, Hsia Tien, Lin K'e-ch'eng, Deputy Chief of Planning Sun Wei-hui, Chief of the Bureau of Communications Lu Hang-fei, Army Commander Huang Hsing-ch'ang, Army Chief of Staff Hsu Po-sheng, Navy Commander Ye Ch'ang-t'ung, chief member of the Naval War Plans Committee and Director of the Office of Shipbuilding Planning Lei Hsueh-ming, executive officer T'ao Neng-chun, Lin Wen-li, Tang Fei, Chi Cheng-wen, Commander of the Combined Service Forces Lo Pen-li, Ch'en Chuan-kao, Liu Shu-hsi, Hu Yu-t'ung, Wu Mou-t'ai, Chou Kan, Hua Hsi-tiao, Director of the An-hsiang [1344 5046] Planning Office Chou Wen-chung. Most of these leaders maintain a close relationship with Hao Po-ts'un and have studied abroad. Therefore, once Hao Po-ts'un takes power, their futures will be predictable.

Eight Who Carry Out Procurement Affairs

After assuming the post of head of the executive following his tenure as chief of staff and minister of defense, Hao Po-ts'un personally issued the directive, "From now on, military procurement work approved by the Ministry of Defense will uniformly be reported to the executive for confirmation." This shows that Hao Po-ts'un will absolutely not let go of the authority he deems he ought to have, and the authority over military purchases possessed by Defense Minister Ch'en Lu-an is obviously not equal to that of Hao Po-ts'un. It is no wonder that when members of the legislature question Ch'en about shortcomings in military procurement affairs, it is difficult for him to answer them. This indicates that Ch'en is already left out of the administration of military procurement affairs.

In fact, the leaders that actually do hold the decision-making power in carrying out military procurement are these eight: Ch'en Chien-kao, Hsia Tien, Lin K'e-ch'eng, Ying K'e-fan, Huang Hsing-ch'ang, Ye Ch'ang-t'ung, Lin Wen-li, and Liu Shu-hsi. As for Chen Lu-an and Chen Shen-ling, they only have the authority to "be briefed" and "initial here"; the real decision-making power is dominated by Hao Po-ts'un.

Ch'en Chien-kao is Responsible For Checking and Approving Arms Purchases

Among these eight, deputy chief of staff and executive officer Ch'en Chien-kao has a similar background to Hao Po-ts'un. Rumor from staff headquarters says "Ch'en Chien-kao executes 120 percent of Mr. Hao's policies." However, the revisions to the "Chia Shan [0163 1472] Plan," the "An Tung [1344 2639] Plan," and "Regulations on Military Procurement Work" as proposed by

Ch'en Chien-kao have caused Ch'en to be criticized and attacked because they overly emphasized Hao Po-ts'un's opinions and neglected collective thinking. Ch'en, however, was unmoved by the criticism.

Lin K'e-ch'eng was once director of Hao Po-ts'un's office. His English is not bad and he possesses a fair understanding of military affairs.

Hao Po-ts'un chose him for the position of deputy chief of logistics, and also delayed his retirement twice. This shows that Hao Po-ts'un feels at ease with Lin in charge of checking requests for military purchases by the armed services.

Sino-U.S. Special Committee Chairman

The current Navy Commander Ye Ch'ang-t'ung has been a follower of Hao Po-ts'un, while Deputy Chief of the General Staff Hsia Tien is also a leader hand-picked by Hao. Ye and Hsia both rose from deputy chief of planning to the rank of general, and, as members of the Sino-U.S. Special Committee, have both been responsible for U.S.-Taiwan military sales at one time. At present, the purchase, development and production of notable military items such as research and development of the IDF and ADF fighters, purchase of the M48H tank, the M60 A3 tank, purchase of a "second-generation fleet," the E2B Early Warning Aircraft, and the AH-1 Cobra Attack Helicopter are in their hands. However, since these projects have gone awry, Ye and Hsia have had to swallow criticism from outside circles. For example, the modification of the S-2T antisubmarine tracker aircraft and the purchase of the S-70C antisubmarine helicopter that raised an uproar in the legislature was their responsibility.

The fact that Ye and Hsia, being naval officers, were the ones to administer military purchases has caused unhappiness between the Navy and the Air Force. For example, in regard to the modification of peripherals to the 70C antisubmarine system, air force leaders once questioned Ye and Hsia: "If the Air Force's purchase of planes requires Navy approval, then shouldn't the Navy's purchase of warships be approved by the Air Force?" These words show that there is a conflict between the armed services.

Lin Wen-li Emphasizes Improvement of Air Force Equipment

Air Force Commander Lin Wen-li once held the post of Deputy National Defense Procurement Director and is very familiar with military sales from the United States. He is intensely interested in the improvement of air force equipment. When F-104 pilots criticized the model as being outdated and thus affecting pilot safety, Lin Wen-li "braved danger" and flew on F-104 fighter himself to give encouragement to air force officers and soldiers. However, his use of this excellent method of "flying once" to writle the F-104 pilots' fear of flight safety caused Lin's motives to be misunderstood, leaving him rather embarrassed. Basically, Lin Wen-li is a leader

whose natural learning ability is not bad. When he took over as Air Force commander, several Air Force leaders had expectations of him, however, his performance after a year and a half left some Air Force officers disappointed in him. In particular, Lin Wen-li only emphasized the technological aspect of things and showed a lack of interest toward many affairs he should have dealt with such as passing on Air Force combat history, tactics, and pilot experience. This showed his passivity toward the handling of internal affairs.

Director of the Chung Shan Institute of Science and Technology Lin Shu-hai is in charge of military equipment research and development. After the "Ta Ch'eng (1129 2032) Plan," the "Thunderbolt Attack Plane," and the "Skybow Integrated Weapons System," were handed over to and put into service by the troops, recurring problems showed that the existence of the Chung Shan Institute leads to exasperation for the armed services. Actually, since the Chung Shan Institute claims to be a research and development unit, why should it become involved in military goods procurement affairs? From research and development to creation of production capability, to actual production and foreign military purchases, it can be seen that the Chung Shan Institute has increasingly departed from its legitimate occupations. This is worth deep consideration by the military.

Hao Po-ts'un's Executive Officers

Although Huang Hsing-ch'iang is the Commander of the Army, the Army's foreign military purchases are all decided on by Hao Po-ts'un. Huang Hsing-ch'iang does not have the power to amend these decisions; he can only diligently carry them out. It is no wonder that his conduct has been questioned by the Democratic Progressive Party legislator Ch'en Shuo-pian, and has received a round of attacks from the legislature which has left him embarrassed. As for Resource Department Head Ying K'e-fan, since he only has the power to transmit policy, with Ch'en Chien-kao, Hsia Tien, Lin K'e-ch'eng and others guiding policy above him, even though his is listed among them, he is in fact relegated to the outskirts of power.

From Ch'en Lu-en to Ying K'e-fan, all are simply Hao Po-ts'un's executive officers stationed in different departments. In reality, the principal leader controlling foreign military procurement is still Hao Po-ts'un.

Ministry To Focus on Five Points

9/CEN0988 Taipei CHING-CHI JIH-PAO in Chinese
1 Jun 91 p 2

[Editorial: "1992 Work Priorities of the Ministry of Economic Affairs"]

[Text] The Executive Yuan recently conducted a partial reorganization in which all of the senior financial and economic affairs officials remained in office, which shows that they have won quite a bit of approval for their administrative achievements and, at least, that they

made no inexcusable mistakes in 1990. As they remained in office after the partial reorganization by the Executive Yuan, it is hoped that they will be able to make an even better showing in the future.

I think that the Ministry of Economic Affairs (MOEA) has brought home a pretty good report card. Even though there is currently some adverse criticism in various circles over MOEA's lowering of the price of oil, i.e., that it did not go far enough, this criticism is not enough to wipe out MOEA's successes in other areas. The successes most praiseworthy include cooling down the dispute and raising hopes for a reasonable settlement of the disagreement over the setting up of the No. 6 light industrial factory. Since breaking through various obstacles, the No. 5 light industrial factory has gone into operation. Since undergoing an appraisal, workers in the Changpin Industrial Zone have returned to work. The resistance over certain environmental protection issues has also been gradually cooled down through steady coordination efforts by MOEA. After a period of stagnation, foreign exports have returned to normal growth in 1991. Moderate stability has been maintained in domestic prices, and no serious inflation has appeared.

Minister of Economic Affairs Siew has indicated that MOEA's five 1992 work priorities are to promote investment interest, expedite industrial upgrading, develop international relations, improve the management efficiency of state-owned enterprises, and enhance resource development and utilization. The most particular importance is being given to expediting the beginning of construction on the number six light industrial factory and the number four nuclear power plant. It is also hoped that Taiwan will be able to join the GATT and the Asian-Pacific Economic Council (APEC). It is hoped that some of these five work priorities can be accomplished within a year, while it seems that the achievement of others will require long-term efforts and coordination with other ministries. I would like to wish Minister Siew success.

Although the concerned government departments have made many efforts to promote domestic investment interest in recent years, it seems that they have certainly not achieved outstanding successes. Why has nongovernmental investment activity not increased much in 1991? Some have blamed this on the fact that the world economy has still not experienced a strong recovery, which has prevented Taiwan's economy from flourishing on its own. While this may certainly be one factor, my own thorough analysis shows that noneconomic factors may have a greater impact on domestic investment interest than economic ones. While our domestic public order has admittedly improved, and our labor movement is gradually getting onto the right path, a more basic factor still exists, i.e., the feeling of public uncertainty over Taiwan's political future is preventing a marked recovery of investment interest. Even though our pace of constitutional reform has quickened in 1991, and the government has decided to hold elections for the delegates to the Second National Congress and done

much painstaking constitutional reform work, public disagreement over the rewriting of our constitution, a movement toward establishing a new country, and attempts to break up China by promoting Taiwanese independence still exist. The expression of political views is not enough, and opportunities are constantly being taken advantage of to assemble, demonstrate, and engage in street resistance. While none of this is likely to succeed, the sense of social instability that it creates is certainly casting a psychological shadow over the majority who are striving for stability and thus, is having a negative impact on investment interest.

This lack of investment interest seems to be related to political factors, because the strong feeling of domestic political uncertainty is forcing investors to look for overseas opportunities. The CPC on mainland China is taking advantage of this opportunity to attract many Taiwanese investors and lure Taiwanese investment to mainland China. As our government still has no suitable laws or decrees to standardize investments in mainland China, many Taiwanese investors have been shifting their funds there. Even though mainland China is part of our national territory, can investment there be considered domestic investment? This is a very awkward issue to deal with. Moreover, Taiwanese investors are not only investing in Mainland China, but many are also investing in ASEAN countries. This partial replacement of domestic investment with overseas investment obviously shows that domestic investment interest has not markedly increased.

That construction has not been started according to plan on the No. 6 light industrial factory and the No. 4 nuclear power plant, is also obviously related to the lack of investment interest. This is no longer a purely economic investment issue, but has turned into a highly politicized dispute. Not resolving it quickly will not only make it hard to restore confidence in public authority, but will also have an adverse impact on our whole economy that warrants consideration.

I am concerned that the recent frequent and unprincipled CPC international actions to pressure us by attacking our pragmatic and flexible diplomacy, not only do not reflect goodwill toward our government's reunification aspirations, but are even more likely to dampen our domestic investment interest.

Based on this analysis, I think that the key to accomplishing the five work priorities proposed by Minister Siew still lies in noneconomic political factors. MOEA has no control over some of these factors, so must await Taiwanese political developments. Others, such as expediting the rapid start of construction on the number six light industrial factory and the number four nuclear power plant, and taking active steps to get Taiwan into the GATT and APEC, are MOEA's responsibilities. In light of Minister Siew's capability and success in getting construction started on the number five light industrial factory and getting workers back to work in the Changpin Industrial Zone, I hope that the issue of the

No. 6 industrial factory and the number four nuclear power plant can be resolved successfully in 1991. I also hope that the task of getting Taiwan into the GATT and APEC can also be accomplished as quickly as possible with the cooperation of the Ministry of Foreign Affairs and other concerned departments. If this priority work can be accomplished on schedule, the interest in investing in Taiwan will be bound to increase sharply.

Banking Department Upgraded to Bureau Status

OH0207132791 Taipei China Broadcasting Corporation News Network in Mandarin 2300 GMT 30 Jun 91

[From the "News and Commentary" program]

[Text] The Banking Department of the Ministry of Finance will be formally upgraded to the Banking Bureau on 1 July. It will take charge of the domestic banking market jointly with the Central Bank. At a time when our country's banking system is striding toward liberalization, the position of the Finance Ministry's Banking Bureau becomes all the more important. Broadcasting Corporation of China reporter Wang I-chih files the following report

[Wang I-chih speaks.] The 15 new commercial banks approved by the Finance Ministry are scheduled to start business in October one after another. Naturally, the banking system at home will soon face an unprecedented challenge. In view of this situation, the Finance Ministry plans to upgrade the existing Banking Department to the Banking Bureau so as to expand the scope of its business and take charge of the future banking policy.

As for the Banking Bureau established on 1 July, we asked Chang Hsiu-lin, deputy director of the Government Information Office, whether its decision-making and management can catch up with the pace of business of the new banks. He said:

[Chang Hsiu-lin recording begins.] We will do our best. The newly established Banking Bureau can have a larger number of staff members. We will soon recruit some suitable personnel to fill up the staff. As for inspectors, we still need to train some personnel. It takes time to accumulate experience. It is impossible to have many experienced personnel right away. We will increase the number of personnel, improve their quality, and strengthen our inspection work. [end recording]

Asked whether the business of the Banking Bureau and that of the Central Bank's Banking Inspection Department will overlap or not, Chang Hsiu-lin explained that the Central Bank's Banking Inspection Department is in charge of banks' inspection work in general, while the Banking Bureau is responsible for reexamining banks or some specialized investigating work. The business of the two units will not overlap. Instead, their relationship is that of supplementing each other.

[Chang Hsiu-lin recording begins.] The two units' business will not overlap very much because they will fully coordinate and maintain the division of work. As I said just now, the Central Bank's Banking Inspection Department will do the checking in general, and if any bank is found to have any problem, then the bank in question will be reexamined. The general checking is done at a set time. If any bank is found to show any warning signals, whether in banking or financially, we will examine the bank in question exclusively. [end recording]

Asked how the Banking Bureau will solve the question of preventing nepotism and favoritism between the [word indistinct] and banks, Chang Hsiu-lin said:

[Chang Hsiu-lin recording begins.] We still need to amend and improve the bank law. We need to clarify the orientation, give a crystal-clear definition of the persons related to the gain or losses of banks, and prevent the corrupt practice of doing business in other people's names. In purchasing fixed assets, including real estate, we will also stipulate that the conditions should not be better than those of other similar trades. This is also an effective way to prevent nepotism or favoritism. [end recording]

The 80-member staff of the upgraded Banking Bureau of the Finance Ministry will be expanded to 320 members. In the first year, it will expand to 200 staff members. In view of the drastic increase, besides revamping the existing office equipment, the Banking Bureau is actively seeking a new location. Currently, the target is somewhere around the former Taipei City Council.

Trade With Europe Surges in First Half of Year

OH0207091391 Taipei CNA in English 0828 GMT 2 Jul 91

[Text] Taipei, July 2 (CNA)—Trade between Taiwan and Europe broke the 10 billion U.S. dollar mark in the first five months of 1991, according to the Council for Economic Planning and Development (CEPD).

Exports to Europe accounted for 20.6 percent of Taiwan's exports in the period, a total of 6.02 billion U.S. dollars, while imports from Europe reached 4.86 billion U.S. dollars, leaving a trade surplus of 1.16 billion U.S. dollars, CEPD reported.

The sharp rise in exports shows European markets are playing an increasingly important role in Taiwan's external trade, CEPD said.

The recent strength of the New Taiwan (NT) dollar, however, is worrying domestic manufacturers who think it might undermine their exports to Europe, CEPD noted.

More and more European countries are showing a keen interest in Taiwan markets especially in the 8.3 trillion NT dollar six-year national development plan which will

include hundreds of public construction projects. Sino-European trade relations thus are becoming closer, CEPD noted.

In contrast trade between the Republic of China and the United States totaled 13.9 billion U.S. dollars in the first five months of 1991, a 2.7 percent fall from the same period of 1990, CEPD reported.

Exports to the United States accounted for 28 percent of the nation's total exports, a drop from the 33.1 percent recorded in the same period of last year and a sign of decreasing dependency on U.S. markets, CEPD said.

ROC's trade deficit with Japan, however, increased 600 million U.S. dollars to a record high of 3.6 billion U.S. dollars during the period, CEPD lamented.

Taipei To Be Asian Financial Center

OW0107084291 Taipei CNA in English 0749 GMT
3 Jul 91

[Text] Taipei, July 3 (CNA)—The government will soon form a task force to make Taipei into an Asian financial center, Yu Cheng, deputy governor of the Central Bank of China, announced Tuesday.

Yu told a meeting of Executive Yuan department chiefs that the panel, to be composed of officials from the Central Bank, the Ministry of Finance and other administrative agencies, will meet regularly to review progress for the ambitious plan.

The senior banker cited a number of advantages for Taipei in its ambition to become a regional financial hub: Huge foreign exchange reserves, sustained current account surplus, a 30-percent national savings rate, ever-growing foreign trade, and well-trained manpower. The high demand for capital in international markets over the next decade is also expected to help Taipei accomplish its goal, Yu noted.

Yu said the Central Bank will further ease foreign exchange controls and allow free gold trading as the first step toward financial liberalization. The bank will complete a draft bill amending current foreign exchange regulations within the next three months, he pledged.

The Central Bank will introduce new financial products into the local monetary market and open forward foreign exchange trading within six months. It also plans to entice prestigious foreign monetary brokerages to open offices here and is drafting regulations to govern their operations.

In the medium-term, the government will revise or repeal outdated financial regulations to facilitate financial liberalization and will pave the way for Taipei to become a new Asian monetary center.

In the long run, the government will allow more non-Taiwan residents to open new Taiwan dollar accounts at local banks as an initial step in internationalizing the national currency.

The government will choose a suitable place in the next two years to house a modern and well-equipped international financial building and will improve telecommunications facilities and service here.

Japanese To Invest in Machine-Tool Industry

OW0407091791 Taipei CNA in English 0809 GMT
4 Jul 91

[Text] Taipei, July 4 (CNA)—A Japanese machine tool giant will invest 500 million NT (New Taiwan) dollars in Taiwan to produce CNC (expansion unknown) machine tools and equipment for automatic assembly line in the aerospace industry, sources said today.

Officials from the Yamazaki Mazak trading company have called on economic officials here during the past couple of days to explain their plans for the plant here and their investment.

The Mazak officials expressed their confidence in the potential of aerospace industry in Taiwan, sources added.

They said that the CNC machine tools and assembly line equipment produced by the Yamazaki Mazak are used by such big firms as Boeing, McDonnell Douglas and GE (General Electric). If CNC machine tools and assembly line equipment can be produced here, it will be a tremendous boost to the development of aerospace industry in Taiwan, sources added.

Central Bank of China May Cut Discount Rate

OW0607115991 Taipei CNA in English 0826 GMT
6 Jul 91

[Text] Taipei, July 6 (CNA)—The Central Bank of China is studying the feasibility of lowering its discount rate in order to induce across-the-board interest rate cuts here, the governor of the bank said yesterday.

Samuel Shieh said his bank might decide on whether or not to cut its lending rate to commercial banks by the end of next week.

The central bank has come under heavy pressure to lower its discount rate after the Bank of Japan cut its lending rate by half a percentage point Monday. Many legislators, business leaders, economists and trade officials have urged the central bank to follow suit.

Legislator Ho Chih-hui, in his meeting with Gov. Shieh yesterday, suggested that the central bank cut its discount rate by 0.125 to 0.25 percent.

In reply, Shieh said his bank will make an overall review of the country's current economic situation and its

outlook over the next six months before deciding on the range of the proposed lending rate cut.

Under the government's financial liberalization policy, Shieh said domestic interest rates will gradually be decided by market mechanism, not by the central bank.

Vice Economic Affairs Minister P. K. Chiang said yesterday he supports reductions in domestic interest rates with a view to stimulating private investments.

Chiang said interest rate is a major factor affecting investment willingness. Higher interest rates may dampen private investments and undermine domestic economic development, he added.

High interest rates may also accelerate capital inflow and thus pressure the New Taiwan dollar to appreciate, Chiang said.

Local interest rates are now higher than those in neighboring Asian countries and are second only to those in Germany among major industrialized nations. Many exporters blamed high interest rates for the NT dollar's recent appreciation against the U.S. greenback.

Trade With Portugal Rises 30 Percent Over 1990

OW0807174591 Taipei CNA in English 1340 GMT
8 Jul 91

[Text] Madrid, July 7 (CNA)—Two way trade between the Republic of China (ROC) and Portugal during the first five months this year registered an increase of 30 percent as compared with the same period last year to amount to 73.6 million U.S. dollars, according to customs statistics.

The ROC's exports to Portugal during the January-May period totaled 65.4 million U.S. dollars, up 35.7 percent, while Portugal's exports to the ROC reached 10.2 million U.S. dollars, an increase of 9.2 percent.

Corporation Eyes Joint Development of Siberian Oil Fields

OW0807110691 Taipei CNA in English 0903 GMT
8 Jul 91

[Text] Taipei, July 8 (CNA)—The Chinese Petroleum Corporation (CPC) is studying the feasibility of cooperating with Soviet Union businesses to develop oil resources in Siberia, a spokesman said today.

CPC is interested in participating in joint ventures with Soviet businesses through CPC's overseas branches so as to gain oil drilling rights in the big socialist country, the spokesman said.

In order to gain a better understanding of the conditions for oil drilling in the Soviet Union, the spokesman explained that CPC had sent personnel to that country on inspection tours.

World oil prospectors have gradually shifted their attention to the Soviet Union, Vietnam and Africa in recent years where oil resources have seldom been tapped, the spokesman added.

CPC has budgeted 1.1 billion NT dollars in fiscal 1992 for oil drilling projects, and cooperation with Malaysia, Australia, Argentina, Indonesia and the United States will continue, the spokesman noted.

Proviso on Hiring Foreign Labor Drafted

OW1107113491 Taipei Voice of Free China in English
0200 GMT 8 Jul 91

[Text] Deputy Director of the Council of Labor Affairs Hsu Shui-tao Sunday said his council has already coordinated with the Interior Ministry and Foreign Ministry to complete a draft of a temporary proviso on measures regarding Taiwan's labor shortage.

The draft will provide the basic guidelines for manufacturing, textile, and other local industries to follow when they apply to legally employ male or female foreign labor.

The measures will be used until the council's proposed employment services law is reviewed by the legislature and ready for implementation.

Hsu pointed out that the draft is similar to plan announced last October by the Executive Yuan regarding foreign labor. The draft is different, Hsu said, in that it addresses the issue of permitting foreign women coming to work in the Republic of China (ROC).

Hsu indicated that the draft says foreign women employed by ROC industries are not permitted to marry, or get pregnant, during their period of employment in Taiwan, otherwise they will be subject to fines and deportation by police authorities. The draft is limited to foreign labor from the Philippines, Thailand, and Indonesia, and is designed to meet the Foreign Ministry's stricter measures adopted toward foreign labor from Southeast Asia.

Trade With European Community Increases

OW1007094891 Taipei CNA in English 0759 GMT
10 Jul 91

[Text] Taipei, July 10 (CNA)—Trade between the Republic of China and the European Community (EC) broke the 10 billion U.S. dollar mark in the first half of this year and the 12-nation trade bloc has emerged as Taiwan's second largest export market after the United States, trade authorities reported today.

Taiwan-EC trade reached 10.3 billion U.S. dls in the January-June period for an annual growth of 16.6 percent, the Board of Foreign Trade (BOFT) said.

Exports to the community surged a hefty 27.2 percent to hit 6.43 billion U.S. dls, and imports from the trade bloc rose 2.6 percent to 3.93 billion U.S. dls, BOFT said.

Germany remained Taiwan's largest market in the community, while the Netherlands replaced Britain as the island's no. 2 sales outlet in the bloc.

Sales to Germany ballooned 45.6 percent to reach 2 billion U.S. dls between January and June, and accounted for 31.9 percent of total EC-bound shipments.

Taiwan's trade with Germany topped 5.85 billion U.S. dls in 1990 and the amount is expected to exceed 7 billion U.S. dls this year, BOFT said. More than 200 Taiwan companies have set up marketing footholds in Germany to facilitate trade promotion there, it added.

Exports to Holland, an entrepot center for Taiwan-EC trade, grew 29.3 percent to 1.14 billion U.S. dls. The Republic of China enjoyed a trade surplus of 750 million U.S. dls with the Netherlands during the six-month period, the largest among EC members, BOFT said.

Sales to Spain rose an impressive 39.9 percent and shipments to France increased 21.8 percent.

The Euro-Asia trade organization reported that Taiwan exports to all European countries reached 7.27 billion U.S. dls in the first six months of the year for an annual growth of 25.7 percent.

Sales to Europe accounted for 21.1 percent of Taiwan's total outbound shipments for the period, compared to the 18.1 percent registered the year before.

Taiwan exports picked up 13.5 percent to 36.16 billion U.S. dls in the January-June period, according to customs statistics. Sales to the United States reached 10.14 billion U.S. dls, or 28 percent of the total.

Exports to Asia as a whole climbed 25.6 percent to 14.94 billion U.S. dls, with Hong Kong alone absorbing 5.64 billion U.S. dollar worth of goods.

1992's Economic Growth Target Set at 7 Percent

OW 110711891 Taipei CNA in English 0800 GMT
11 Jul 91

[Text] Taipei, July 11 (CNA)—The 1992 economic growth target is set at 7 percent, with the ceiling on inflation set at 3.5 percent, the Council for Economic Planning and Development (CEPD) announced Wednesday.

The cabinet's economic planning agency predicted that the country will easily be able to achieve these goals because the world economy has turned for the better and the government will continue to increase investments in order to bolster domestic economic growth.

The council said the International Monetary Fund (IMF) has just released an upbeat forecast of general world economic trends in the coming year. The Washington-based international lending organization forecast that global trade will expand 5.5 percent in 1992, more than double this year's 2.4 percent growth.

IMF also predicted that the 1992 world economic growth rate will surge to 2.9 percent from 1991's 1.2 percent. Among the world's major economic powerhouses, IMF said, the United States is expected to register a 2.7 percent growth, up from 1991's 0.2 percent rise, and the Japanese economy will grow 3.9 percent next year.

Against this backdrop, CEPD said, the 7 percent growth target should be within the country's easy reach.

CEPD also foresaw low inflation in the coming year. Stable oil prices, which have stabilized in recent months at around 16 U.S. dollars a barrel and are not expected to fluctuate dramatically in the foreseeable future, will certainly contribute to domestic price stability, it explained.

CEPD continued that the launching of the multibillion-dollar 1991-1996 national development plan and a turnaround in the world's major industrialized economies will accelerate the domestic economy's recovery in the second half of this year.

The council said Taiwan's exports have resumed their strength since May and industrial production, export orders placed with manufacturers and private investments have continued to grow during the past few months. All this points to a better second half, CEPD added.

It quoted several prestigious economic research institutions as predicting that major industrialized Western countries will average 2.5 percent economic growth in the second half of the year after registering zero growth in the first half. The turnaround will help boost Taiwan's export-led economy.

Judging from these trends, CEPD said, the country will be able to achieve its 7 percent economic growth target this year.

Asia is Most Important Market, Says BOFT

OW 1507100291 Taipei CNA in English 0738 GMT
15 Jul 91

[Text] Taipei, July 15 (CNA)—With the rapid growth of two-way trade between the Republic of China and other Asian countries, Asia has surpassed America and Europe as Taiwan's most important market, the Board of Foreign Trade (BOFT) said today.

Trade figures in the first half of the year showed that Taiwan's exports to Asian countries totaled 14.94 billion U.S. dollars, or 41.3 percent of its exports, imports from Asian countries totaled 13.94 billion U.S. dollars, or 45.2 percent of imports.

BOFT said exports to Asian countries rose 25.6 percent in the January-June period compared with the same period last year, while imports from Asian countries grew 23.4 percent. The figures set new export and import records for Taiwan.

BOFT attributed the rapid growth to the dramatic increase in Taiwan investments in Thailand, Malaysia and Indonesia which have made the Southeast Asian countries important trade partners for the Republic of China.

Trade with Mainland China through Hong Kong has made the British colony Taiwan's second largest export market, BOFT said.

Indirect exports of machinery and industrial parts and components to the mainland increased dramatically while imports of agricultural raw materials and semi-finished products from Mainland China also showed continued growth.

Japan is Taiwan's No. 1 import source and third export market.

BOFT said that half of Taiwan's top 20 trading partners now are Asian countries.

Trade Deficit With South Korea Widens

*OW 1607094091 Taipei CNA in English 0820 GMT
16 Jul 91*

[Text] Taipei, July 16 (CNA)—The Republic of China on Taiwan suffered a trade deficit of 178 million U.S. dollars with South Korea in the first half of this year, 2.4 times that registered in the same period of 1990, according to customs statistics.

The figure also exceeded the deficit of 156 million U.S. dollars recorded for the whole of 1990, government tallies show.

The large trade deficit was attributed mainly to increased imports of Korean chemical intermediaries and of machinery parts and components during the past six months.

Economic affairs officials said the growing trade imbalance shows that Taiwan is lagging behind its arch trade rival in industrial upgrading. They worried that Korea, after Japan, might become Taiwan's another major trade deficit partner.

The officials said the Korean economy grew 9 percent in 1990, higher than Taiwan's 5.2 percent. Moreover, Korea's economic growth was stimulated mainly by its 23.4 percent increase in private investment. In contrast, Taiwan's growth was made possible by increased government investments; private investments declined 8.88 percent.

The officials pointed out that private investments are essential for healthy and continued economic growth. The government must take bold steps to enhance private investment willingness; otherwise, they warned, Taiwan's economic competitiveness will lag further behind Korea.

Beijing's Interference in Airport Issue Decried

VICMD4114 Hong Kong CHENG MING
(CONTENDING) in Chinese No 163, 1 May 91
pp 50-61

[Article by Ch'i Jen (2630 0086): "What Lies Behind the 'Showdown' Over the New Hong Kong Airport"]

[Excerpts] [passage omitted] In the new Hong Kong airport issue, Beijing has finally found a superb opportunity to challenge the British colonial empire. A few days ago, the Chinese and the British held their eighth meeting in Beijing, which "adjourned" without having reached a consensus. No announcement was made as to when another meeting would be held.

According to a post-meeting report from an informed source, the Chinese raised numerous harsh conditions in the meeting, including its approval of the new airport project contract and various exclusive rights, operation of the airport administration, and Chinese examination and approval of Hong Kong tax collection and bond issuance policies for the next several years.

If these very specific administrative actions have to undergo Chinese "examination and approval," the Hong Kong government's authority during the transition period will exist in name only. The British are worried that if everything having to do with post-1997 matters has to receive a nod from Beijing, virtually all of some rather important matters pending may be construed as applying after 1997, so why wouldn't the Chinese be "perfectly justified" in weighing in on them? If this is the case, where does the Hong Kong government's authority explicitly provided for in the joint Sino-British declaration come in?

Although everyone from Li Peng, Qian Qichen, and Ji Pengfei to Lu Ping (7120 1627) have all said repeatedly that China has no intention of interfering in Hong Kong's authority prior to 1997, everyone is well aware of their meddling.

This raises a matter that causes concern, namely, why does Beijing want to interfere in Hong Kong affairs ahead of time? [passage omitted]

The controversy over the new airport has centered around just a single word: "money." Lu Ping's "what's to be done," delivered three times in a stern voice and with a grim countenance, is of special pertinence. However, as some economists have pointed out, this "rose garden" for which \$130 billion (\$ denotes Hong Kong dollars) is to be spent is not a big problem in fiscal planning. Were Beijing to express optimism about the project's future prospects, many private agencies would certainly jump at the chance to bid on it. The higher the percentage of private agencies taking part, the smaller the risk to the future special zone government. In the view of some foreign investors, despite the 1997 risk, investment in Hong Kong is preferable by all odds to investment in Beijing or Shanghai.

As for requiring that the Hong Kong government keep \$20 billion to be handed over to the special zone government, this is even less a problem. Unless an "earthshaking" crisis occurs during Hong Kong's transition period, after many years of interest accumulation, the Hong Kong government's reserves of more than \$70 billion will amount to \$200 billion by 1997.

Chinese officials big and small have suddenly become spokesmen for the rights and interests of Hong Kong residents, declaring that "the British want to spend all the money in the Hong Kong people's pockets," thus, it is necessary to examine and approve every action of the Hong Kong British during the transition period. Actually, they have an ulterior motive. The Chinese aim is to kill two birds with one stone, namely to win over the people and to fan anti-British sentiment and hatred for the British among the people of Hong Kong. The latter is the more important. By taking the opportunity to attack British rule in Hong Kong, they will be able to act with greater "boldness and assurance" in the exercise of sovereignty in 1997.

Sad to say, for more than 100 years, the Chinese have had their fill of natural and man-made calamities, as well as domestic troubles and foreign invasions. They have yet to free themselves from the predicament of being "both poor and blank." Only those Chinese living under colonial regimes have been able to live and work in peace and contentment. China's promise of "one country, two systems" to solve the Hong Kong problem is actually a tacit acknowledgement that the socialist system is not the equal of the capitalist system, a truth that even a three year old understands. Although Queens Road East, Victoria Park, Edinburgh Place, and Mac Elhoose Path may have their names changed after 1997, it will not be easy to erase from people's minds the effective rule of the Hong Kong government. If, this is further compared with the muddleheadedness and incompetence of the Beijing government, a centrifugal tendency is likely to be spontaneously generated among the people of Hong Kong. This worries the Chinese Communists, particularly since during the global support for the citizens movement in 1989 it was the expression of support from the people of Hong Kong that was most intense. This included no confidence in, and a spurning of the murderous Beijing government. However, in the view of Li Peng and his ilk, these feelings can evolve into seedlings for "disturbances" that cannot be idly countenanced.

Some evidence shows that the Chinese Communists are using two tricks in preparation for an "orderly transfer" of sovereignty. First of all, from high officials at the top in Beijing to leftist mouthpieces at the bottom, they are conducting a Cultural Revolution-style campaign of encirclement and vituperation against Hong Kong's democrats, and this campaign contains a hint of "future retribution." If these people emigrate out of worry about a future settling of accounts, this serves the Chinese "housecleaning" purpose. In addition, they are fanning a psychology of hatred of the British among the city's

residents, laying at the British doorstep all of Hong Kong's future impoundables. The new airport is a breakthrough in this effort.

Several days ago, the director of the Hong Kong office, Lu Ping, purposely revealed, following adjournment of the Sino-British Airport Experts Group meeting, that the Chinese had presented a "fair and reasonable plan" for building a high quality airport without the need to increase taxes and float bonds, and that it would also keep sufficient reserves for the special zone government. Now, "the Chinese are awaiting the British reply."

Hong Kong WEN WEI PO termed this plan "free" (while the British plan spends \$1 billion). It consists mainly of "an overall guiding principle that establishes some prerequisites for Hong Kong's construction of a new airport." In effect, the plan that the Chinese have in mind is the plan for the future airport. If the British refuse to give in, they will be checkmated in a single move. Any resulting decline in the Hong Kong economy will also be linked to Britain's refusal of this "more, faster, better, and more economical" plan. The WEN WEI PO correspondent in Beijing revealed a secret. Reportedly, during the past half year, Beijing has specially organized a group of people for the urgent study and understanding of the new Hong Kong airport. "That the Chinese have unequivocally put forward a plan shows that they not only have a plan in mind, but that for the sake of Hong Kong's long-range interests, they will adhere to it throughout." This has an arrogant tone about it.

More than once, Lu Ping stated that he wanted to put both the Chinese and the British plans on the table to allow the people of Hong Kong to evaluate them. By contrast, the British seem much more passive. Recently the Chinese have planted rumors everywhere saying that when the Hong Kong governor, Sir David Wilson and Foreign Minister Douglas Hurd visited Beijing, they made a request of the Chinese, saying that the more they could keep secret, the better. Thus, the Chinese have actually completely taken the initiative. The saying that it is "necessary to guard against British schemes" has also rapidly gained currency among some people in Hong Kong.

Actually, in the contest over the new airport, the Chinese may be considered experienced and astute. At first, China's attitude was secretive. It did not fiercely attack the Hong Kong government for "acting first and reporting afterward" in calling for tenders for the cross-harbor bridge project. It scrupulously abided by the bottom line of "no statement of position." It waited until the Hong Kong government exuberantly completed its feasibility study, and until all projects awaited only final details before launching an attack, trotting out a plan that "takes all factors into account including careful study of a plan for large British Hong Kong reserves. China also announced that "responsibility for whether or not the British in Hong Kong wish to cooperate, and

whether construction of the new airport could get started under Sino-British cooperation was not up to China."

The Hong Kong British government is between a rock and a hard place. When the Hong Kong government announced its \$10 billion "rose garden" scheme and the Chinese did not give a strong response, it supposed it could have a free hand. Unexpectedly, injected into the previously drawn up Chinese "plan" was the statement that the Hong Kong British government still has a sore foot, in other words, that in the recently announced fiscal budget there are many tremendous tax increases that worsen inflation and cause a near-term rise in building prices that hurt the people's livelihood. Complaints are heard everywhere from ordinary citizens in the city. Consequently, the Hong Kong government found it very difficult to gain popular support on the airport issue, and thus began the haggling with the Chinese. [passage omitted]

Let us go back in the discussion. Some may ask whether the Chinese Communist's "more, faster, better, and more economical" plan will really be wonderfully effective. Will it really bring long-term benefits to the people of Hong Kong? As some commentators have noted, if China is able to pull off such a scheme in Hong Kong for "getting the horse to run, but not having the horse to eat hay," why is the building of China's own economy in such a mess? Actually, what the Chinese gain is a political stick they can use to bring the Hong Kong British authorities to heel during the transition period, not permitting "reckless words and reckless deeds." On everything else, "what the Chinese Communist Party says counts." Once it says something, that's it. Are there not many such examples? This is not to mention that there are very many uncertainties in Hong Kong's future. In the view of Chinese officials, building a modern airport that may not be in keeping with the special zone's future status is not as desirable as holding on to Hong Kong's existing reserves, spending them gradually. When necessary, they may even be used to give the central government a "blood transfusion" as Shanghai does today.

Whether Hong Kong in the future will become like Shanghai is today, no one can say with certainty. Shanghai has not only buildings with the flavor of Europe during the 1930s and 1940s, but also new factories built during the 1970s and 1980s. The occupants of many newly built dwellings have to empty chamber pots and wash them each day, which makes people from elsewhere look askance. Reportedly, when the projects were built, water pressure for toilets was not taken into account, with the result that primitive vessels have to be used in five- and six-story high buildings to solve the problem.

It seems that after 1997, Hong Kong residents may learn a good lesson from such "lack of coordination," particularly about starting construction on that "more, faster, better, and more economic" new airport.

Closure of BCCI Triggers Panic, Protests

HK1807021191 Hong Kong SOUTH CHINA
MORNING POST in English 18 Jul 91 p 1

[By staff reporters]

[Text] The Government yesterday pumped \$60 million in cash into the banking system because of fears that panicking depositors would drain Hong Kong's smaller banks of funds.

After the Government announced it was taking the Bank of Credit and Commerce (BCC) (BCCI, Bank of Credit and Commerce International) into liquidation, at least two other banks were rushed by customers wanting to withdraw funds, with some branches running out of cash.

The move to shore up the small banks and restore depositors confidence came at the end of a day of violent clashes between police and protesting BCC depositors.

Distraught depositors fearing they had lost 75 percent of their funds held by BCC crowded into Central and stopped traffic, leading to scuffles with police.

Six were arrested and carried away. A photographer was also detained.

Senior government officials hastened to assure the public that the banking system was sound and warned anyone spreading false rumours about financial institutions could face prosecution.

But fears of a territory-wide run on banks sent the Hang Seng Index into a tail-spin after hitting a record high of 3,997.67, and spearing through the magic 4,000 at one stage on Tuesday.

At one point yesterday, the index was down more than 50 points though it recovered later in the afternoon to close just 35.21 points down at 3,962.46, its second highest ever close.

But bank and property stocks fell across the board as rumours of the customer run on the International Bank of Asia and the Dao Heng Bank dissolved local investor confidence.

The Financial Secretary, Sir Piers Jacobs, announced in the Legislative Council [Legco] that the Executive Council [Exco] had decided the BCC would be liquidated to ensure the interests of all depositors were protected.

The decision followed 10 days of uncertainty since the bank was closed as part of a worldwide seizure of its assets.

Sir Piers said he would be approaching the Finance Committee tomorrow for the authority to discuss arrangements with the liquidators to pay the 40,000 Hong Kong depositors 25 percent of their funds, subject to a limit, as a first measure.

The decision was taken after a three-hour emergency meeting of the Executive Council yesterday morning which considered a report by the Commissioner for Banking, Mr David Carse.

Angry depositors demonstrated outside the Central Government Offices where the Exco meeting was being held and only dispersed after Sir Piers came down from the meeting and promised to make a statement in Legco.

He said petitioning for liquidation of the bank which has about U.S.\$1.4 billion (HK\$10.85 billion) in deposits, did not preclude the eventual sale of the institutions although he admitted he saw little immediate prospect of this happening.

Sir Piers said in the circumstances surrounding this affair it would not be appropriate for the use of the Exchange Fund to rescue the bank, and a decision to open the bank without satisfactory support would not have worked.

"Those depositors first in the queue to get their money would have benefited at the cost of the less fortunate who might have got nothing.

"Only an orderly liquidation will ensure fairness to all," Sir Piers said.

The BCC was formally wound up after a petition by the Government yesterday afternoon at a chambers hearing before Mr Justice Barnet.

The liquidator, Registrar-General Mr Noel Gleeson, said officials had already moved to secure the assets of all 25 branches of the bank in Hong Kong.

Chairman of the Hong Kong Bank, Mr William Purves, said taking the bank into liquidation was the best solution in the present circumstances.

Regulators elsewhere had claimed that there was significant fraud in the bank and had moved to liquidate it, he said.

Under these conditions there was great uncertainty whether or not he subsidiaries here might have similar problems and therefore people did not know for sure what the position was.

Representatives of the depositors were uncertain last night what their next move would be and said they would wait until the liquidator had gone through the banks' accounts.

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